Austria Sch22	Indonesia ... Rp3100	Portugal Esc120
Bahrain ... Din0 650	Israel NS3 50	S.Arabia Rls7.00
Belgium BFr48	Italy L1700	Singapore ... S$4.10
Canada . ..... C$1.00	Japan Y600	Spain Pta145
Cyprus ..... . C£0.90	Jordan Fils.500	Sri Lanka Rup30
Denmark . DKr10 00	Kuwait Fils.500	Sweden SKr9.00
Egypt . ... E£2.25	Lebanon .. S£125.00	Switz SFr2.30
Finland Fmk7 00	Lux LFr48	Taiwan ...... NT$65
France FFr6.50	Malaysia ... Rm4.25	Thailand Bht50
Germany ... DM2.30	Mexico Pes300	Tunisia ... Din0.800
Greece Dr120	Morocco Dh6.00	Turkey L600
Hong Kong.. HK$12	Neth Fl3.00	UAE Dh6.50
India Rup15	Norway ... Nkr10.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Φ No. 30,572 Friday June 24 1988 D 8523 A

NEXT THURSDAY:
NEW WORLD IN THE MAKING
A 12-page FT report will look at the growing economic strength of Asia's Pacific Rim

World News

300 feared dead in Turkish landslide

About 300 people were feared dead in a landslide which engulfed a Turkish village near the Black Sea. The landslide hit Catak, near the port of Trabzon some 500km northeast of Ankara, at about 8 a.m. Page 2

Sri Lanka blackout

Military officials have imposed a news blackout on a big offensive by Indian troops. About 6,000 Indian troops are believed to be taking part in the assault on Tamil rebels in the jungles of north-eastern Sri Lanka.

Spy row intensifies

Canada is expelling the Soviet military attaché in Ottawa and has declared a former embassy secretary persona non grata in the growing spy row between the two countries.

EC redundancy aid

European Commission announced it will grant Ecu137.4m ($165m) to 46,488 steel and coal workers laid off in eight Community countries.

Iraq 'air raid'

Iran said at least one person was killed in a series of Iraqi air raids on industrial and residential targets in western Iran.

US condemns Pretoria

The United States condemned South Africa for its abortive raid into Botswana and praised the government of President Quett Masire for its handling of two captured South African soldiers.

Palestinian 'arson'

Demonstrators started eight brush fires during a Palestinian-declared Day of Arson, Israeli officials said.

Strikers attack city hall

About 5,000 strikers demanding pay rises attacked a city hall in northern Yugoslavia and blocked rail and road traffic, the state news agency Tanjug said.

Hungarian reshuffle

Hungary's new Communist party leadership named Bruno Straub, a member of Parliament, to replace Karoly Nemeth as Hungary's president and proposed that Imre Pozsgay, one of the country's leading reformers, be given a new government post, a Politburo member said.

'Waste' officials sacked

Nicolae Ceausescu, the Romanian leader, has dismissed several senior government and party officials for their involvement in, or knowledge of, illegal dumping of waste. Page 2

People's Party protest

About 10,000 people gathered in the Soviet city of Kuybyshev on the Volga River to demand the removal of their Communist Party boss, according to dissidents. Page 3

Oslo ponders N-ban

Norway is considering a ban on exports of heavy water after a series of embarrassing charges that foreign powers used supplies bought from Oslo to make nuclear bombs, Government sources said.

Draft sweeps airports

The Greek Government conscripted about 450 air traffic controllers into national service to stop them joining other public employees in a 24-hour strike. The ministry of transport said they were under civil mobilisation to protect the country's defence and economy.

Burma protests spread

Anti-government protests in Burma have spread to Mandalay and the port of Pegu and the capital has been placed under a dusk-to-dawn curfew after nine people died there, state radio said.

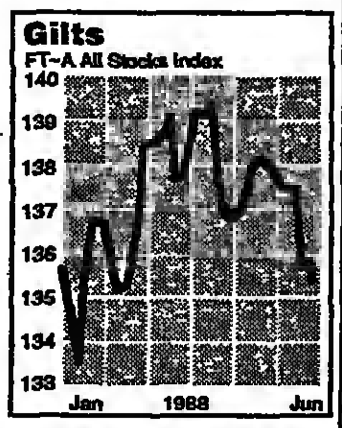
Business Summary

Battle for La Générale expected to end today

EUROPE'S most spectacular hostile takeover battle will come to a definitive close in Brussels today. Carlo De Benedetti, Italian entrepreneur, is expected to announce the sale - for around $1bn - of more than half his stake in Société Générale de Belgique, to his bitter French rival, Compagnie Financière de Suez. Page 18

BARLOW CLOWES affair intensifies as Michael Jordan, senior partner of Cork Gully, London accountancy firm acting as liquidator, said he had discovered "a very extensive web of companies, much greater than I had imagined," related to Barlow Clowes International. Page 9

GILTS were unable to sustain early gains of a ¼ point and closed with losses of ⅜ at the long-dated end, ¼ in mediums and ¾ in shorts. The weakness in bonds followed sterling's decline and contrasted with firmness in the New York credit markets. Page 36



LONDON: Demand for Rowntree shares, following the food group's acceptance of a bid from Nestlé of Switzerland, led the market higher in early trading. But a weak bond market hit confidence and eliminated gains, with the FT-SE 100 index easing 0.4 to 1,878.9. Page 36

WALL STREET: The Dow Jones industrial average closed down 3.91 at 2,148.29. Page 40

TOKYO: The dollar's sharp rise against the yen dampened investor enthusiasm, and share prices fell for the fourth consecutive trading day. The Nikkei average ended 127.85 lower at 27,732.93. Page 40

DOLLAR closed in New York at DM1.7852, Y128.60, SFr1.4760 and FFr6.0040. It closed in London at DM1.7860 (DM1.7790); Y128.65 (unchanged); FFr6.0150 (FFr5.9850); and SFr1.4780 (SFr1.4735). Page 29

STERLING closed in New York at $1.7550. It closed in London at $1.7570 (1.7685); DM3.1375 (DM3.1475); Y226.00 (Y227.50); FFr10.5675 (FFr10.5850); and SFr2.5975 (SFr2.6050). Page 29

PARIS BOURSE was disrupted by strikes for the third time this week, halting trade in some of France's leading stocks and raising fears that the market could be paralysed next week.

SONY, Japanese electronics group, has moved the headquarters for its European television operations from Tokyo to Stuttgart, West Germany, instead of Bridgend, in Wales, site of its oldest and largest European factory. Page 8

NORANDA, Canada's largest resource group, has joined the bidding for Placer Dome's direct 25 per cent interest in Falconbridge, nickel producer. The stake is worth nearly C$600m (US$496m) at current market prices. Page 19

QUEBECOR, Montreal-based publishing group, will become Canada's largest single printer with the acquisition of most of the Ronalds printing business from BCE, Canadian industrial holding company, for C$180m (US$150m). Page 19

VENEZUELAN Government hopes to sign a joint venture agreement covering the construction of a new aluminium plant

Rowntree accepts improved £2.55bn bid from Nestlé

BY DAVID WALLER IN LONDON AND WILLIAM DULLFORCE IN GENEVA

ROWNTREE, the UK chocolate confectionery company, yesterday abandoned its two-month battle to remain independent and recommended an increased £2.55bn ($4.5bn) bid from Nestlé, the Swiss foods group.

The manufacturer of Kit Kat and Smarties, After Eight and Polo mints thus spurned the attentions of Jacobs Suchard, Nestlé's compatriot and arch-rival in European coffee and chocolate markets.

The deal after a month's secret talks between Rowntree and the Swiss companies.

Mr Kenneth Dixon, Rowntree chairman, said he had opened talks immediately after Lord Young, Secretary of State for Trade and Industry, signalled the Government's refusal to refer Nestlé's original £2.1bn bid to the Monopolies and Mergers Commission.

The recommendation left the London Stock Market wondering what Suchard would do next. Suchard is free to improve on its own £2.32bn bid but the market took the view that it would be unlikely to do so. Suchard could sell its 29.9 per cent stake in Rowntree to Nestlé at a profit of more than £200m.

Nestlé's latest offer, pitched at 1,075p a share, compares with its original offer of 890p and the 950p a share offered in Suchard's counter-bid. Mr Walter Anderau, Suchard's vice president for corporate affairs, said the latest bid price was beyond the limit his company had entertained.

However, Mr Klaus Jacobs, chairman, was meeting other board members yesterday and the company would announce a formal response either today or at the weekend. Reflecting the widespread belief that Mr Jacobs will not counter-bid again, Rowntree's shares closed 27p up at 1,078p, just 1p ahead of the offer. Nestlé was able to go into the market, taking its stake from 15.8 per cent to 23.5 per cent by lunchtime.

At a joint press conference with Nestlé, Mr Dixon, said the "non-economic" package offered by Nestlé had been crucial to the board's decision and not just the price obtainable for shareholders.

"This is a good deal for all those who have a stake in Rowntree," Mr Dixon said. "I mean by that shareholders, employees and the community at large".

Nestlé has given assurances that the York head office will remain the centre of Rowntree's activities in the UK, thus answering many of the fears raised during the unsuccessful lobbying campaign to have Nestlé's first bid referred to the MMC.

Mr Helmut Maucher, Nestlé's managing director, refused to give any guaranteed to Rowntree's 13,000 workforce in the UK, but said his company would respect Rowntree's employment policy and practices – and would try to maintain its special relationship with the City of York.

Rowntree in York will assume responsibility for Nestlés global

Continued on Page 18

HOW ROWNTREE WAS SWALLOWED

APRIL 13: Jacobs Suchard in dawn raid to take its Rowntree holding to 14.9 per cent. Pays 630p a share and says it has no intention of bidding unless someone else makes a hostile bid.

APRIL 27: Nestlé hostile bid at 890p a share. Shares remain around that level while Lord Young decides whether to refer bid to Monopolies and Mergers Commission. Nestlé buys 15.8 per cent of Rowntree and Suchard takes its holding to 29.9 per cent.

MAY 25: Lord Young clears Nestlé bid.

MAY 26: Suchard challenges Nestlé with a £2.32bn counter-bid at 950p a share. Rowntree defence document says pre-tax profits will increase by 29 per cent to £185m this year.

JUNE 1: GMB, largest union representing Rowntree's UK 13,000 workforce, urges Rowntree board to recommend offer.

JUNE 7: Nestlé fails to deliver knock-out blow and extends original offer.

Sweet sorrow in chocolate city

BY FIONA THOMPSON IN YORK

IT WAS A DAY of sweet sorrow in York yesterday as the battle for control of Rowntree reached its inevitable outcome with a parting of the ways.

The chocolate city, which has successfully persuaded millions to take a break and a Kit Kat and not to forget the Fruit Gums, mum, was resigned to the change of ownership. But that didn't meant there were no regrets.

Mr Reg Pulleyn took over as Lord Mayor of York, in the north east, only five weeks ago and his first task was to fly to Geneva to meet Suchard and Nestlé.

"We called them predators, but now, dare I say it, I'm going to invite the predators to lunch. We've got the Nestlé directors to see what Rowntree means to York and see that as much as possible is done to keep production here."

More than 5,000 of Rowntree's 13,000 UK workforce are at York, and the company has been associated with the city since 1725 when a family of Quakers, tea dealers and grocers opened a shop called Mary Tuke. The Rowntree brothers – Henry and Joseph – bought that business, which had diversified into cocoa and chocolate, in 1822.

"Joseph will be turning in his grave today," said Mr Bill Bushell, Rowntree's archivist, who has been with the company for 40 years, starting out at 15 as a joiner's apprentice.

"I think the outcome was inevitable because of Nestlé's cash, but I'm sad to see Rowntree lose its independence. It has been a good company to work for, they have always had an eye to the workforce – my daughter gets £300 a year to help her in university – and I wonder if Nestlé will honour Rowntree's conditions?"

Nestlé has given a commitment to maintaining Rowntree's record of support for the community and said that York will continue to be the centre of Rowntree's activities in the UK, but there were some employees and townspeople in York yesterday who had their doubts.

Mr Roger Gale is the manager of the Bradford & Bingley Building Society in the city. He has about 3,000 customers with mortgages, a certain chunk of whom are Rowntree employees.

"There is a feeling that some jobs will be transferred from York. This could have a dire

Continued on Page 18

Mexican debt-equity swap privatisation deal founders

BY DAVID GARDNER IN MEXICO CITY

THE MEXICAN Government's largest ever privatisation, of the Cananea copper mining company, has collapsed two months after the deal was announced, Nacional Financiera (Nafinsa), the state development bank, announced after its board met late on Wednesday.

Protexa's purchase was to have been financed by a debt-equity swap, whereby the Monterrey company bought $910m of Mexican sovereign debt for around half its face value through a syndicate led by First Chicago. The US bank withdrew from the deal at the end of last month, and a new syndicate led by Midland Bank of the UK stepped in.

Cananea was sold to Protexa, a Monterrey construction group, in April for $910m, a sum which exceeds the total value of all privatisations carried out by the President Miguel de la Madrid's Government to date.

As with all state divestitures so far in Mexico, details of the Cananea deal were not released, and so far neither the Government nor Protexa or its putative new bank creditors have explained why the financing package has fallen through.

It is understood that both bank syndicates baulked at the steep 50 per cent discount Protexa wanted on the purchase of the sovereign debt, and resisted the longer than originally anticipated repayment schedules the construction company wanted.

From the banks' point of view the attractiveness of the deal consisted in being repaid about $500m over seven years, rather than the less certain prospect of being repaid $910m over 20 years by the Mexican state. But according to one government official close to the bidding process, Protexa insisted on an additional discount from the banks in exchange for accepting the much shorter repayment period.

The collapse of the Cananea deal is a disappointment to the de la Madrid administration, and is bound to attract further criticism from nationalist opinion, not only about the logic of privatisation but the improvised nature of its execution.

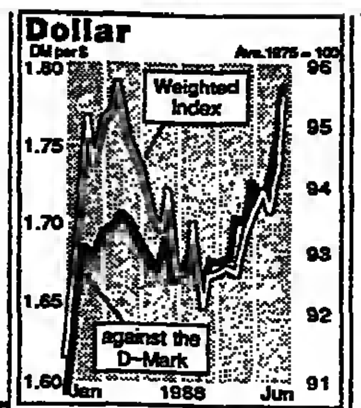
The Government's attempts to shrink the public sector is a key issue in the fiercely contested presidential elections due on July 6, where a fast-rising left-wing coalition led by Mr Cuauhtemoc Cardenas, a nationalist who split from the regime last year, is challenging Mr Carlos Salinas de Gortari, the former planning minister designated by Mr de la Madrid as his successor.

To cap the Government's discomfiture, Nafinsa has not only had Cananea returned to its portfolio, but has had to take over the La Caridad copper mine owned by Mexicana de Cobre, one of Mexico's four large private mining groups which is understood to be in default on the Nafinsa credits it used to purchase the mine.

The collapse of the deal came on the same day that Brazil finally hammered out a deal with its creditor banks. The $61bn debt rescheduling package was agreed after months of negotiations with the country's 14 leading bank creditors.

Brazil and its leading bankers will now embark on a series of roadshows in Europe, Japan, Canada, the United States and the Middle East

• Major step in debt crisis, Page 6;
Editorial comment, Page 16



Dollar hits eight month peak in active trade

By Simon Holberton in London and Janet Bush in New York

THE DOLLAR closed in London at an eight-month high against the D-Mark yesterday after an active trading day in Europe.

Yesterday's market conditions were interpreted by some analysts as confirmation that sentiment had swung back in the US currency's favour.

On Wall Street, financial markets put in a mixed performance after the substantial rallies in the dollar, equities and bonds on Wednesday.

The dollar has risen by about 10 pfg against the D-Mark over the past month. In London, it closed at DM1.7860 compared with DM1.7790 on Wednesday. This was the dollar's highest closing level since October 26 last year, the date on which it began to fall sharply. The dollar closed in New York at DM1.7852, Y128.60, SFr1.4760 and FFr6.0040.

The pound weakened by a pfennig to close in London at DM3.1375 and by nearly a cent at $1.7570. It closed 0.4 points weaker at 76.1 on the Bank of England's trade-weighted sterling index.

The UK authorities thought Wednesday's rise in base rates to 9 per cent had been absorbed well by the financial markets.

There were signs that UK markets were looking for another rise in interest rates. Yields on short-dated gilt edged securities rose to almost discount another ½ percentage point rise.

There was speculation that Monday's UK trade figures for May might provide an opportunity for the authorities to move again. It is understood that the Chancellor and his advisers had a preview of next Monday's figures when Wednesday's decision to raise rates was taken.

On Wall Street, the Dow Jones Industrial Average drifted lower during active morning trading and closed 3.91 down at 2,148.29. It had risen by more than 40 points on Wednesday.

Lex, Page 18

Soviet troops ordered into Azerbaijan

BY QUENTIN PEEL IN MOSCOW

SOVIET TROOPS were reported yesterday to have been ordered on to the streets of Nagorno-Karabakh, the Armenian-populated mountain region of Azerbaijan which has been in virtual open revolt against the central authorities for more than a month.

The move suggests that Mr Mikhail Gorbachev, the Soviet leader, facing a crucial Communist Party conference next week to decide the future of his entire reform programme, has finally lost patience with the demands of Armenian nationalists.

The revolt in the region, which has been paralysed by a general strike for the past month, has caused an open confrontation between the ruling Communist parties in the neighbouring republics of Armenia and Azerbaijan, and threatens to upset Mr Gorbachev's carefully-laid plans to dragoon his hesitant supporters into further political liberalisation.

In a dramatic report from Stepanakert, the centre of the revolt which is closed to all visitors, Pravda, the ruling party newspaper, said yesterday that the situation was steadily deteriorating, and troops were on the streets in several towns. Last week Pravda reported that the civil authorities had lost control of the region.

Pravda said: "In the past days, the situation in Nagorno-Karabakh has become even more tense. The migration of Armenian families to Armenia and Azerbaijanis from Armenia to Azerbaijan is continuing. In a number of cities, including those of Nagorno-Karabakh, soldiers have been brought in."

The protest stems from the demand of the Armenian population of the enclave to be transferred from the jurisdiction of Azerbaijan to neighbouring Armenia. It has already inspired demonstrations by hundreds of thousands in Yerevan, the Armenian capital, and a bloody backlash of race riots in the Azeri city of Sumgait in February, which left 32 dead.

The Pravda correspondent provided an emotional eye-witness account of the revolt, saying the workers "have no intention of returning to work until the Nagorno-Karabakh issue is resolved.

"It would appear on the surface as if the situation could not get any worse," he said, "but every day the Armenian population of Stepanakert, as if under the influence of mass hypnosis, leave their homes to attend meetings

Elected representatives in the region have backed the nationalist demands, and called again this week for Moscow to reconsider them. They in turn have been threatened with expulsion from the Communist Party by Mr Abdul Vezirov, the Azerbaijan leader in Baku.

The refusal of the Armenian demonstrators to wait for the mediation of Moscow has given Mr Gorbachev an apparently insoluble problem just at the moment when he needs to concentrate all his political forces on the forthcoming party conference.

Top party officials insisted yesterday that the issue would not be formally on the conference agenda – although the whole problem of accommodating rising nationalist aspirations in the country will certainly be aired.

Party newspapers have warned that conservative elements will use the revolt to argue that political liberalisation, and the open debate of policy, has already gone too far. Mr Gorbachev, for his part, is calling for more openness to underpin his efforts to overhaul both the economy and party democracy.

The Pravda report condemned the Nagorno-Karabakh demonstrators for "disguising demagogical statements behind slogans in support of *perestroika*. "Is this really forwarding the cause of *perestroika* when the normal working life of the region has been virtually paralysed?" it asked.

The disturbances also threaten to spill over into neighbouring regions. Mr Dzhumber Patiashvili, Communist Party leader in Georgia, warned in Moscow that it was causing bad relations between 500,000 Armenians and 250,000 Azeris in his republic.

Another nationalist issue threatening to disrupt the party conference is the demand by Crimean Tartars, expelled from their homeland by Stalin, to be allowed to return home.

Party reform plan

Mr Gorbachev will make specific proposals for democratic reforms of the Communist party at its extraordinary national conference next week, officials said yesterday. Changes in the membership of the central committee, still dominated by conservatives from pre-Gorbachev years, will also be possible – but no open elections to the central committee will be held, they said. Gorbachev bombshell, Page 2

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THE MAN WHO MEANS TO SHAKE UP EDUCATION IN BRITAIN

Kenneth Baker, seen as the minister most likely to bring about historic reforms, Page 17

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EUROPEAN NEWS

Even the idea of Vienna in the EC has caused legal controversy, reports **Judy Dempsey**

Austria faces a neutrality problem

THE Auatrian Government, largely under pressure from industry, is expected soon to make a decision on whether or not to apply for full membership of the European Community next year.

The decision will end months of speculation and conflicting statements from the Socialist-led coalition Government, whose junior partner, the Conservative People's Party, is anxions to apply for membership as soon as possible.

But if Austria applies for full membership many questions will arise, not nnly about the country's own relationship with the European Free Trade Assocation bnt, more importantly, about the compatibility of Austria's neutral status within the framework of the EC.

Until recently, the Government was not particularly interested in foramally applying to the EC.

Its original aim was to "participate as comprehensively as possible in the internal market," according to Mr Manfred Scheich, one of the senior experts heading a commission in Vienna examining the social, legal and political consequences of Austria's integration with the EC.

The work of the commission, which finally presented its report to the Government this week, involved looking at how, through a series of "pragmatic steps," the country's legislation could be harmonised with European standards.

This entails, for instance, ironing nnt differences between Vienna and Brussels on allowing such things as the free flow of labour and the right of establishment which are essential bases of the internal market.

It also means bringing the country's banking and insurance system into line with the EC so that European, financial and other institutions could set up in Austria and vice versa. In short, as Mr Scheich put it, "what we want is a full and comprehensive participation in the substance of the internal market. Until now, we have left the actual political/institutional question aside."

But it is this very question - the decision on whether or not to apply - which has changed the whole complexion of the debate in Austria.

From a purely pragmatic point of view, the business community argues that, as more than 60 per cent of Austria's trade is with EC countries, it would be short-sighted not to apply formally, and as soon as possible.

"What will happen if we do not? After 1992, we will be left out in the cold," one industrialist said, adding that he was already making his nwn plans about investing in companies in other EC countries rather than waiting for the Government to makes up its mind.

If the Government does formally apply, this would inevitably bring into question Austria's relationship with Efta.

At the moment, Austria seems to be nutgrowing Efta "in the sense that we are actively preparing for 1992. Many of the other Efta countries are dragging their feet," a foreign ministry official said.

Some Anstrian officials say that certain Efta member states, for example, Sweden and Switzerland, dn not relish the prospects of opening up those markets which would allow the free flow of either capital or labour, while Austria, in theory at least, is anxious to open its borders completely. "We just cannnt ait around with Efta and wait," a ministry official added.

Moreover, officials in Vienna are nnt tntally convinced by Efta's argument that participation in the internal market, without being a full member, is enough. "It falls short of one crucial ingredient: without membership, we will be excluded from the shape as well as from the decision-making processes in the EC," a foreign ministry official explained.

Franz Vranitsky

The idea of such full participation also throws open the question of Austria's neutrality.

The country's neutral status is not part of the state treaty which was signed on May 15, 1955. Neutrality was passed by parliament on October 26, 1955 by an act - the constitutional law on neutrality. That law states that "Austria, of her own free will, declares . . . her permanent neutrality . . . in order to secure these purposes, Austria will never in the future accede to any military alliances . . ."

Foreign ministry officials in Vienna say that any option of membership to the EC will "fully take into account the requirements of the status of our neutrality."

In other words, any statements from the Soviet Union on the question of Austria's neutrality in the context of its relationship with the EC will not, so officials say, unduly influence or hinder negotiations between Vienna and Brussels.

"Of course there is the possibility that the EC will evolve into some kind of political union which the Russians fear. This would mean that we would have to be very specific about how we interpret our nentrality. We would have to argue our point to Brussels that our neutrality is compatible with the EC. Look at the case of Ireland," argues the foreign ministry.

Although Brussels has given no indication how it would respond to an Austrian application, several trends suggest that the time is appropritate for Austria to apply in the near future.

For one thing, a consensus exists among the banking and indnstry community that an application should be made, and soon. The Government, however, is dithering because the Socialist Party under Mr Franz Vranitzky, the chancellor, has yet to make np its mind. The trade unions, also an extremely important factor, will make their own decision in mid-July, but the growing feeling is that if a decision is not soon made, then the whole debate could become a major political issue.

The mood in the Soviet Union is another factor. Although the Austrian Government publicly shrugs off what appear to be intimidating and often conflicting statements from Moscow about an Austrian EC application, the fact that Comecon, the East bloc's trading organisation, is due to formalise its relations with Brussels indicates that this is the right time for Vienna to make np its mind.

On a deeper level, the banking and business community, academics and the more enlightened sections of the younger generation, so burdened with the heavy hand of the state and its overpowering bureaucracy, believe that only through actively participating in the EC, will Austria finally grow out of its fiercely xenophobic, introverted and often anti-entrepreneurial view of the world.

"The EC would be good for us in the sense that we could speed up our own restructuring of the economy which is long overdue. We could become more receptive to ideas and question even our own institutions which we have taken for granted for so long," one young foreign ministry official said.

Hungarians plan mass protest over Romania

By Leslie Colitt in Budapest

A LONG-SIMMERING conflict between two Warsaw Pact allies, Hungary and Romania, has flared into the open with tens of thousands of Hungarians preparing to hold a mass rally next Monday to protest at Romania's discrimination against its large Hungarian minority.

Western diplomats in Budapest said yesterday that only tha Soviet Union stood between the two countries and prevented them from possibly using armed force.

An unprecedented campaign was waged in the Hungarian media to mobilise domastic and international opinion over the fate of the ethnic Hungarians. The 1.7m Hungarian minority, mainly in Transylvania, is one of the largest minorities in Europe.

The unofficial rally and march planned for June 27 has been given tacit official support by the Hungarian Communist leadership. The protests are over a plan recently announced hy Mr Nicolae Ceansescn, the Romanian leader, to eliminate thousands of villages, many inhabited mainly by Hungarians.

The Bndapest newspaper Magyar Nemzet said in a commentary on Wednesday that passions connected with nationalities were "running high." It said that the fate of minorities in Romania was a matter of indifference to the outside world.

Althongh Moscow has not openly taken sides in the embarrassing conflict, the Soviet newspaper Literaturnaya Gazeta recently pnblished the Hungarian case against the planned destruction of villages in Romania.

Mitterrand reappoints Rocard as prime minister

BY IAN DAVIDSON IN PARIS

MR MICHEL Rocard was reappointed as French Prime Minister by President Mitterrand last night after he had voted in the election for the speaker of the newly-elected National Assembly.

Some doubt still hangs over when he will form his new government, since the Socialist Party will need the support of all 24 elected members of the outgoing government in the selection of standing committees of the National Assembly, and ministers lose their voting rights in the National Assembly.

Last night Mr Laurent Fabius, former Socialist prime minister, was expected to be elected speaker of the National Assembly, defeating Mr Jacques Chaban-Delmas, also a former prime minister and one of the barons of Gaullism.

Although the speakership of the National Assembly is the third most senior position in the French state hierarchy, after the President and the president of the Senate, Mr Fabius' election is something of a consolation prize, since he was defeated in his attempt to secure the leadership of the Socialist Party.

The main surprise of last night's contest was the eleventh-hour candidacy of Mrs Yann Piat, the sole member of the National Front to be elected to the National Assembly, who scored four votes in the first round of voting.

All 276 deputies in the Socialist Party group voted for Mr Fabius first time round, whereas Mr Chaban-Delmas fell six votes short of his expected total of 289 from the right and centre-right, and the Communist candidate, Mr Georges Hage, fell two deputies short of the Communist total of 27 deputies. Mr Hage called on his supporters to swing behind Mr Fabius.

After repeated urgings of both President Mitterrand and Mr Rocard for a more co-operative relationship with the centre-right, it seems a foregone conclusion that the Socialist Party will offer the chairmanship of at least two standing committees to the opposition, probably foreign affairs and social affairs.

This will be a clear gesture of goodwill towards the proposals of former President Valéry Giscard d'Estaing, who has argued for a more co-operative method of working in the National Assembly between government and opposition. Moreover, Mr Giscard d'Estaing was president of the foreign affairs committee in the outgoing National Assembly, so the Socialist proposal probably means that he will be able to keep the position.

Since the selection of standing committees is not expected to take place until next Tuesday, it seems inevitable that President Mitterrand will be accompanied to the European Summit in Hanover on Monday and Tuesday by members of the outgoing government, which remains in office for the management of current affairs until replaced by its successor.

Mr Rocard is likely to form his government by next Tuesday evening, since he has already announced that on Wednesday he will make a general statement of government policy before the National Assembly. He is not expected to seek a vote of confidence on his statement, however, since his newly appointed government ministers will have lost their voting rights in the Assembly, and their replacements do not acquire voting rights for a further month.

Ceausescu sacks top officials over illegal dumping of waste

BY JUDY DEMPSEY IN VIENNA

MR NICOLAE Ceausescu, the Romanian leader, has dismissed several senior government and party officials for their involvement in, or knowledge of, illegal dumping of waste.

The scope of the dismissals, which surprised even close observers of Romania, seem to go beyond Mr Ceausescu's customary rotation of cadres.

They include Mr Stefan Birlea, chairman of the State Planning Committee, Mr Ilie Vaduva, the Minister of Foreign Trade and International Economic Co-operation and his state secretary, Mr Constantin Stanca.

Several other ministers, including Mr Tudor Postelnicu, the Minister of the Interior who was appointed late last year, Mr Constantin Dascalescu, the Prime Minister, Mr Gheorghe Paraschiv, the Minister of Finance and Mr Ion Nicolae, the Minister of the Chemical and Petrochemical Industry, were either "warned" or "censured" for not taking action to prevent this incident.

Mr Ceausescu last weekend criticised ministers and senior party officials during a session of the political executive committee, according to Bucharest Radio and Scinteia, the Romanian party daily.

He attacked them for allowing waste, which belonged to a company in Liechtenstein, to be illegally dumped at the port of Sulina, north-east of the country.

With unusual frankness, the press reports stated that illegal contracts were signed in 1986 between the port administration and a company from Liechtenstein, which was allowed to store industrial chemical and petrochemical waste at the port.

The director of Chimica Bucharest, a Romanian foreign trade company, was also sacked for "concluding a contract with the company and making use of abusive and illegal means to utilise these products in Romania."

The press reports did not say how these products would be used nor did it ask whether Mrs Elena Ceausescu, wife of the president, knew about the incident.

She is the First Deputy Prime Minister, chairman of the National Council for Science and Technology and the built up the petrochemical industry.

The dismissals as well as the very sharp criticism meted out to ministers, hitherto regarded as close allies of Mr Ceausescu, seem to indicate a more serious dimension to this incident.

Turkey landslip 'kills 300'

ABOUT 300 people, including tourists, were feared killed yesterday in a landslide that engulfed a Turkish village near the Black Sea, Reuter reports from Ankara.

The landslide engulfed restaurants, buses, cars and a school in the Turkish village of Catak near the port of Trabzon at about eight in the morning. Motorway restaurants were packed with customers held up by an earlier slide.

Tons of mud and rock cascaded down a rain-soaked mountain. The Anatolian news agency said continuing falls of earth were hampering rescue operations.

Foreign tourists, travelling in the five or six buses reported trapped, were believed to be among the dead.

"Somewhere between 100 and 150 people were believed to be inside the restaurants," said Mr Enver Hizlan, governor of Trabzon province.

President Kenan Evren sent a message of condolence and Mr Turgut Ozal, Prime Minister, recovering from an assassination attempt last Saturday, said the state would give all possible help.

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Gorbachev plans 'bombshell' on democracy

BY QUENTIN PEEL IN MOSCOW

MR MIKHAIL GORBACHEV, the Soviet leader, will make specific proposals for democratic reforms of the Communist party when he opens its extraordinary national conference next week, officials said yesterday.

Changes in the membership of the central committee of the party, still dominated by conservative figures from pre-Gorbachev years, will also be possible – but no open elections to the central committee will be held, they said.

However, final details of the agenda, the specific resolutions to be put, membership of the presidium in charge, and a timetable for how long it will last, are all being left for the very first session of the conference to decide next Tuesday.

Organisation of the event, spelt out yesterday by Mr Yuri Sklyarov, the head of the propaganda department of the Communist party, falls well short of the hopes of the most radical reformers.

Billed in the Soviet press as crucial for the survival and continuation of Mr Gorbachev's economic and political reforms, most of the conference will be held behind closed doors, without even fraternal delegates from fellow Communist countries in attendance.

Only the opening and closing sessions will be televised live, although a verbatim transcript – subject to editing by the delegates themselves – will be available for the Soviet press.

The details given by Mr Sklyarov, himself a key figure in the party hierarchy, give just enough hope for the reformers that radical changes will be possible, while also making it clear that they cannot hope for a completely public debate to reveal the divisions between conservatives and reformers in the party leadership.

He said that hundreds of thousands of proposals had been submitted by branches and regional committees of the party for debate, on the basis of the broad "theses" approved by the central committee. However he refused to say who was responsible for their selection for discussion.

The theses concern the two broad themes of the conference: an analysis of the progress of perestroika to date, above all in revitalising the Soviet economy, and proposals for democratisation of the country's political system, inclnding both the ruling party and the moribund elected Soviets.

Many of the grass-roots proposals publicised in recent weeks are for radical changes in the system – such as the political and economic devolution of power proposed by the Communist party in Estonia, and a whole range of plans to restrict the power of party officials, and limit their time in office.

Mr Sklyarov said that Mr Gorbachev would be taking such proposals, going beyond the theses of the central committee, into account in his opening address, which his supporters insist will be "a bombshell".

The same promise was made by Mr Georgy Smirnov, director of the central committee's institute of Marxism-Leninism. "Quite specific proposals will be contained in the main report (by Mr Gorhachev)," he said. "More changes will be proposed."

Sources close to the party say that Mr Gorbachev is not having to clear his speech in advance with the entire Politburo of the central committee, giving him an extraordinary free rein to introduce more radical ideas.

Mr Sklyarov was cautious in agreeing that majority voting could be allowed to approve conference resolutions – which will be binding in the same way that party congress decisions are.

As well as proposals for reform of tha party and its internal democracy, Mr Gorbachev's supporters are hoping for further radical proposals on economic reform to be put to the conference. These could include a substantial dismantling of the central planning controls on wide areas of economic activity – such as all consumer goods industries – and the introduction of more flexible wage rates, interest rates to ration credit, and a competitive banking system, as spelt out by top government economic advisers.

Soviet Union 'not ready for multi-party elections'

BY QUENTIN PEEL

SOCIALIST pluralism already exists in the Soviet Union, but the conditions do not exist for multi-party democracy, a top ideologist of the ruling Communist Party said yesterday.

Mr Georgy Smirnov, head of the Institute of Marxism-Leninism of the party's central committee, none the less held out the prospect for substantial further democratic reforms within the structure of the ruling party, inclnding multi-candidate elections and an increasingly public debate of ideas.

"Things are in a state of flux," he told a news conference on the reform plans for the forthcoming party conference, which opens on Tuesday. "We have been changing the system to make it work on a competitive basis. But people still mistrust us. We are looking for ways to enable the people to influence our bodies of power."

He said "major changes" were already under way for the system of elections to the soviets, the representative bodies which have lost most of their powers to the ruling party structure.

The reforms proposed by Mr Mikhail Gorbachev include a revival of the power of the soviets to counterbalance the party's authority.

Whether the ruling party is itself ready for such reforms will depend crucially on next week's conference.

Mr Dzhumber Patiashvili, Communist Party leader in Georgia, said an experiment in multi-candidate democracy in his territory had caused real upset to his members.

"In one case, the deputy chairman of the local executive committee was not elected,' he said. "He was very disappointed. He said democracy was working against him."

Mr Smirnov said that the introduction of multiple candidates for party posts was none the less already under way, in addition to the electoral changes for the soviets.

Party boss must go say protestors

ABOUT 10,000 people gathered in the Soviet city of Kuybyshev on the Volga River to demand the removal of their Communist Party boss, according to dissidents, Renter reports from Moscow.

They also complained that regional party first secretary Yevgeny Muravyov was not worthy to represent them at the party conference.

Yuri Mityunov, spokesman for the Democratic Union opposition group, said the protesters gathered in Kuybyshev's central square and cited food shortages as the reason why Muravyov and his deputy should resign.

Some 6,000 Communist Party members also signed a petition saying Muravyov had been undemocratically elected to the conference, which will discuss ways of broadening Mr Gorbachev's reforms.

Police surrounded the square but did not intervene, even when a member of the Democratic Union, founded earlier this year as an alternative to the Communist Party, made a speech calling for a multi-party political system.

People have held mass meetings in several Soviet cities, including Omsk in Siberia and Yaroslavl, east of Moscow, to protest about the selection of conference delegates

Bonn forces pace on single EC market

BY WILLIAM DAWKINS IN BRUSSELS

WEST GERMANY yesterday won praise from Mr Jacques Delors, President of the European Commission for forcing the drive to create a free single market by 1992 "almost to the point of no return."

He was speaking a day after EC Trade and Industry ministers agreed to scrap 15 barriers to free trade, possibly the most ambitious series of internal market decisions made by any single ministerial meeting. They included freedom for holders of professional qualifications to work anywhere in the EC, liberalisation of the non-life insurance industry and common requirements for the Ecu 100bn construction materials market.

The measures, forced through by Mr Martin Bangemann, the West German Economics Minister chairing the session, mean Bonn's six-month presidency of the EC has broken all records in achieving progress on the EC's single market plan and set the tone for an up-beat European Summit next week.

Mr Delors said he would use the occasion to press for more concentration on workers' rights in the 1992 plan, including an EC company statute setting out minimum levels of employee participation. "If the internal market is going to mean anything, it must be social as well as economic progress," he said. Other priorities were boosting competition for public procurement, and strengthening the single market

Following Wednesday's breakthroughs, Bonn has now won final adoption for 23 barrier-breaking plans and member states' initial approval for another 14. Community Governments have so far approved about a third of nearly 300 free trade proposals in the single market plan.

They are not the only steps forward in what could be the most prolific week to date for internal market decisions. They coincide with the Commission's adoption of long-awaited plans to enforce free competition in public procurement for energy, transport, water and telecommunications – sensitive sectors currently excluded from EC rules on open tendering.

Meanwhile, EC Industry Ministers are expected today to agree to scrap by July 1 the system of steel quotas, governing more than half of Community production capacity and condemned by Brussels as the biggest barrier to a free steel market.

The sudden acceleration of barrier-breaking decisions has surprised even the national officials closest to the 1992 plan. One attributed it to the optimism following last February's landmark agreement on budget reform. "A lot of us wondered whether it was hype. Now we accept that it's more than thet," he said.

West Germans agree farmland set-aside deal

By David Goodhart in Bonn

THE West German Government has reached agreement on its set-aside scheme, a European Community-wide move to cut cereal surpluses and thus farm spending. The agreement, between the federal government and the state governments, makes West Germany the second country to agree its own variation of the EC scheme after the UK.

Bonn has been a leading advocate of set-aside, in preference to price cuts, and believes its scheme will take between 300,000 and 400,000 hectares of arable land out of production over the next five years.

It also appears to have set the pace with what is likely to be the most generous compensation for farmers anywhere in the EC. Compensation will start from DM 700 (£222) a hectare (a slightly lower floor than expected) and rise to DM 1,440. The payments are topped up by the EC.

The cost to West Germany will be DM 357m of which 70 per cent will be paid by the Bonn Government and 30 per cent by state governments.

Dockers' blockade

MALTESE dockers yesterday blocked Valetta's harbour by towing a tanker across the entrance. The protest came as negotiations failed to defuse worsening political relations over four British Royal Navy warships due to sail into Malta tomorrow, writes Godfrey Grima in Valletta.

Bundestag approves tax reform

By David Goodhart in Bonn

THE West German Government's controversial tax reform, which will reduce income tax by a net DM18.6bn in 1990, has been narrowly passed by the Bundestag, the lower house of Parliament.

Much of the reforming impetus behind the tax change has been dissipated by the Government's decision to increase some consumer taxes next year and by the unseemly intra-coalition wrangling over exemptions from tax increases.

The most hotly disputed exemption was that on fuel for private jets, thanks to the lobbying of Mr Franz Josef Strauss, the Bavarian Prime Minister and a keen amateur pilot. Although it will cost the Finance Ministry only DM20m it has angered many politicians.

The vote on the controversial clause was 240 in favour, 232 against and 17 abstentions. Six members of the governing parties voted against and 17 abstained. If the clause had been defeated it would, at least, have hit the timing of the tax reform.

The next hurdle is the Bundesrat, the upper house of Parliament where the state governments are represented, which votes on July 8. The main difficulty for the Government there is that one Christian Democrat state, Lower Saxony, is threatening to vote with the Social Democrat states, which would be enough to block the reform.

Delors presses for EC monetary union

BY DAVID BUCHAN IN BRUSSELS

THE European summit in Hanover next week could decide on new moves towards monetary union, such as a common central bank, despite Britain's refusal to link sterling fully to the European Monetary System (EMS), Mr Jacques Delors, the Commission president, said yesterday.

The summit will take place in "special circumstances", Mr Delors said, because West Germany – as president of the EC Council of Ministers in the first half of this year – had been so successful in wrapping up reforms of the Community budget and decisions on the EC internal market programme. This would leave the Hanover summiteers free to concentrate on future strategies, such as in monetary co-operation.

At a pre-summit press conference, Mr Delors shed some of the Commission's traditional reticence on monetary issues and added his voice to those urging quick action for a study on a European central bank and for sterling to join the EMS.

It was difficult, he said, "to imagine a common financial zone with eight countries (including the UK) in 1990 freeing capital movements, without the UK taking a clear position on participating in the EMS". Only last week, in the context of the capital liberalisation move, Mr Nigel Lawson, the UK Chancellor of the Exchequer, refused to sign a declaration committing all EC states to put their currencies into the EMS parity grid by 1992, or two years later than the date suggested yesterday by Mr Delors. Equally, the Commission president said it was hard to see how sterling could stay within the Ecu (the European basket currency), and yet keep floating free of the EMS.

But these anomalies affecting one major EC currency, Mr Delors said, "need not prevent Hanover looking at the intellectual issues" of greater monetary co-operation and deciding "ways and means" of advancing that co-operation. According to reports from Bonn, Chancellor Helmut Kohl is expected to propose a study group dominated by EC central banks and financial ministries to look at the central bank issue.

This would represent a compromise between three schools of thought in the Community about a common central bank, which Mr Delors yesterday said he was "discreetly" trying to bring together. One set of people wanted no move towards a central monetary institution until the internal market and convergence between national monetary policies had been achieved. A second group which Mr Delors dubbed "the pragmatists" wanted some investigation of a central bank, but only under the guiding control of finance ministers. A third group was pushing for an immediate decision to create a central bank at a certain point in the future.

If the "pragmatic" viewpoint prevailed, agreement in Hanover on a central bank study might be possible, British officials indicated yesterday.

Mr Delors suggested any study emerging from Hanover should answer four main questions: should the EC have a single currency? If so, should it be the Ecu? Who should manage it, a European central bank replacing or in addition to national central banks? What transitional steps should there be?

Formally, the Commission takes a back seat to national governments on monetary affairs, who regard them as their preserve. But, given the Community's recent success on other policy fronts, Mr Delors seems increasingly emboldened to do some "back seat driving" down the monetary course.

A REGION AT WAR: ANGOLA/NAMIBIA TALKS

FT correspondents look at the background to the crucial four-nation meeting in Cairo aimed at ending military struggles in Southern Africa

Military bases provide springboard

By Anthony Robinson in Johannesburg

THE SIGHT of freight trains thundering through the empty miles of Namibia to their destination, the military logistics base at Grootfontein, sows some doubt in the mind about South African intentions.

From Grootfontein a tarred road runs straight to the Angolan border, some 95 miles away. From the other bases such as Ruacana, Oshikati and Ondangua it is a lot less. From the furthermost base of Katima Mulilo in the Caprivi strip the whole of central Africa is within air range.

Does the South African military really intend to give up this string of bases from which it can intimidate half the continent? If so, at what price?

Such are the difficult questions raised by the flurry of negotiations aimed at seeking peace in Angola and independence for Namibia. They are complicated by the military moves accompanying the current diplomatic manoeuvres. These include recent infiltration of about 11,000 more Cuban troops into southern Angola and fears that experienced Cuban pilots flying MiG-23 jets have reduced, if not eliminated, the air superiority once enjoyed by South African pilots.

Thanks to the UN arms embargo they are reduced to flying Pretoria's aging fleet of Mirage, Buccaneer and Canberra fighter-bombers and light-weight Impala fighter-trainers. The bush telegraph, fed by the tales of returning national servicemen, reports that South African helicopter medivac and other military operations in Angola now take place mainly by night to prevent being caught in daylight without air cover.

Sam Nujoma: Pretoria fears the effect he might have

Pretoria, which has just announced partial mobilisation of its "citizen force", worries that Moscow and Washington are in cahoots, happy to see Fidel Castro put the wind up a government which has defied United Nations demands that it give independence to the ex-German colony it has ruled since 1915.

In theory Pretoria is in favour of granting independence to the UN trust territory under the terms of UN resolution 435. This calls for elections to a constituent assembly under the watchful eye of a 7,000-strong UN force.

In practice it has been delighted to put off the day when a government probably dominated by the South West Africa People's Organisation raises the red flag over Windhoek. Up to now it has done so largely thanks to the US Government.

Both Washington and Pretoria insist that independence be linked to the removal of 40,000 Cuban and Soviet bloc forces and advisers from Angola.

What remains to be seen is whether South Africa still sees this as a fair trade. Ideally Pretoria would like to see the Cubans out of Angola and a coalition government in Luanda which included Dr Jonas Savimbi, leader of the South African backed Unita rebels. It would like to add expulsion of Swapo and the African National Congress from Angolan bases and achieve all this while retaining effective control over Namibia.

In practice the economic dependence of Namibia on South Africa for electricity, transport, markets and sources of supply means that any future government over the 1m inhabitants of this mineral-rich country of scrub, mountain and desert would enjoy no more real independence in its early years than other countries in the region such as Swaziland or Lesotho.

But Pretoria worries about the impact on the white electorate of Namibia and South Africa of "selling out Namibia" and the possible impact of a Marxist-oriented Swapo government led by Mr Sam Nujoma on opinion in black townships of South Africa.

This, it fears, would raise expectations about the inevitability of black majority rule in South Africa too and bring the border with independent black Africa down to the line of the Orange River.

What is perhaps most unsettling to white South Africans is the unaccustomed image of Moscow as a reasonable power seeking a solution to regional conflict rather than as the hogeyman whose alleged plans for a "total onslaught" against South Africa have provided justification for emergency rule.

Doubts cloud prospects for regional peace accord

BY MICHAEL HOLMAN, AFRICA EDITOR

THE ODDS are stacked against a successful outcome to the four-country talks designed to end the civil war in Angola and bring independence to Namibia (South West Africa), which begin the third and possibly critical round in Cairo today.

The unprecedented meeting in London last month chaired by the US and bringing together Angola, Cuba and South Africa, helped break the diplomatic ice. The bilateral session between Angola and South Africa less than a fortnight later in Brazzaville produced no concrete results.

This time round, say US officials close to the talks, both sides must get down to business.

The window of this particular opportunity, they warn, closes as the Reagan Administration draws to an end.

Yet the deep hostility between the main parties, the uncertainties surrounding the role of Angolan rebel leader Dr Jonas Savimbi (like Mr Sam Nujoma, president of the South West Africa People's Organisation, not invited to the talks), and above all doubts about South Africa's willingness to surrender Namibia, lead most observers to believe that negotiations will eventually collapse as did previous efforts in Geneva in 1981 and Lusaka in 1984.

This time, however, there are two important elements missing before: the growing convergence of interest on the part of the superpowers who put southern Africa on the agenda at the Moscow summit; and the apparent realisation by the protagonists that neither side can win an increasingly costly war.

The outline of a peace package, which has far-reaching implications for the whole of southern Africa, is already in place.

All parties to the dispute have agreed in principle that independence for Namibia will be on the basis of UN resolution 435, adopted a decade ago, which provides for internationally monitored independence elections.

> The superpowers are anxious to see a settlement to conflict that is increasingly regarded as unwinnable on the battlefield

Angola has bowed to what is known as "linkage": the insistence by Washington and Pretoria that implementation of Resolution 435 be conditional on the departure from Angola of at least 40,000 Cuban troops.

Their withdrawal would be matched by the removal of several thousand South African troops in southern Angola, and the withdrawal of Pretoria's forces from Namibia by the end of the seven-month transition from South African control to independence.

The government of Namibia would be expected to sign a non-aggression pact with Pretoria, similar to a 1984 agreement between South Africa and Mozambique.

This would bar the African National Congress military wing from using Namibia as a rear base for its guerrillas in their campaign against apartheid.

South Africa is also expected to call for a similar agreement with Angola. If implemented, the ANC would lose important military facilities and Pretoria would have succeeded in creating a *cordon sanitaire* along its northern border. It would stretch east from Namibia, encompassing Botswana, Zambia, and Zimbabwe (whose governments have *de facto* rather than *de jure* pacts), to Mozambique on the Indian Ocean.

This package would, it seems, win the endorsement both of the US, prime mover behind the talks, and the Soviet Union, which like Washington sees the Angola war as unwinnable by either side and which is increasingly sceptical about the military impact of the ANC in South Africa.

Whether this formula is enough to overcome some formidable hurdles remains to be seen.

The gap between Angola and South Africa over the timetable for a Cuban withdrawal is wide.

Luanda has made an opening offer of four years. Pretoria is expected to table its response in Cairo, probably demanding that the Cuban pullout should be complete by the time Namibia is independent – about one year.

It also seems that, in addition to "linkage" Pretoria and Washington have imposed a second condition to implementation of Resolution 435: a negotiated settlement of the Angolan war must make room in the government for Mr Savimbi and Unita.

While Dr Chester Crocker, the US assistant secretary of state for Africa, has been persuading Angola, South Africa and Cuba to join him round the conference table, intermediaries from several African states have been conducting what amount to parallel negotiations seeking reconciliation between Dr Savimbi and President dos Santos – so far with little success.

The third main area of difficulty lies in Pretoria, capital of the regional superpower. To many observers the net effect of the package – whose implementation might help South Africa win a respite from tougher economic sanctions – is to Pretoria's advantage.

It is not necessarily seen in this light in Pretoria.

President P.W. Botha hankers after an "internal settlement" in Namibia, regards the prospect of Mr Sam Nujoma as president of an independent Namibia with horror, and is anxious not to give further ammunition to the far-right parties in South Africa.

Senior members of the military are sceptical about Washington's professed commitment to Mr Savimbi, and are appalled at the prospect of the effective surrender of their bases in northern Namibia.

Against this line up, Mr Pik Botha, the Foreign Minister who may see the merits of a deal, carries little weight.

In the meantime the military build up in region grows – a reinforced Cuban contingent pushing closer to the Namibian border, South Africa putting its reserves on alert, and Unita reportedly developing bases in Zaire.

Should these developments be seen as jockeying for positions which will give the diplomats cards to play at the negotiating table? Or are both sides preparing for further confrontation?

The outcome in Cairo may provide the answers.

Angolan government troops riding an armoured personnel carrier used in the struggle against guerrillas of the South African-backed Unita rebel movement headed by Mr Jonas Savimbi

S Africa reminds the neighbours who is boss

BY VICTOR MALLET

IT HAS become a commonplace to say that southern Africa is a region in turmoil, its population of some 60m insecure and "destabilised" by South Africa. It is the truth, but it is also a generalisation.

There is a world of difference between the relatively peaceful life in Zimbabwe, Zambia, Malawi or Botswana and the devastation in Angola and Mozambique. Economic dependence and border skirmishes are one thing, full scale domestic warfare is another. In the calmer parts of the region the most visible signs of Pretoria's interference are raids, roadblocks and refugees.

Countries harbouring members of the African National Congress or the South West Africa People's Organisation are targets for South African commando raids, air strikes or car bomb attacks ostensibly aimed at the guerrillas. Hence the army roadblocks set up by vulnerable governments to search for intruders.

Refugees are mostly the victims of wars waged by the other guerrillas – the ones supported by South Africa – principally the Mozambique National Resistance and Unita in Angola. There are now more than 1m refugees scattered across southern Africa, and 5m displaced people inside those two former Portuguese colonies.

South Africa's attempts to weaken the ANC and Swapo, and to create a *cordon sanitaire* along its borders by undermining potentially hostile governments, have cost the subcontinent thousands of lives and billions of dollars in extra transport costs, additional military expenditure, lost development opportunities and sheer destruction.

Some of South Africa's more amenable trade partners in the region, notably Zaire and Malawi, have suffered almost as much as some of its worst enemies. The Angolan war has closed the Benguela railway, shutting off an export route for Zairean and Zambian copper. Zaire has to send its copper to distant South African ports, and as a supporter of Unita it risks retaliation in the form of another Angolan-inspired rebellion in Shaba province.

Malawi's main transport routes via Mozambique to the Indian Ocean have been cut by the MNR, forcing it to pay 40 per cent of its foreign earnings to truck its imports and exports to and from South Africa. It also hosts half a million Mozambican refugees.

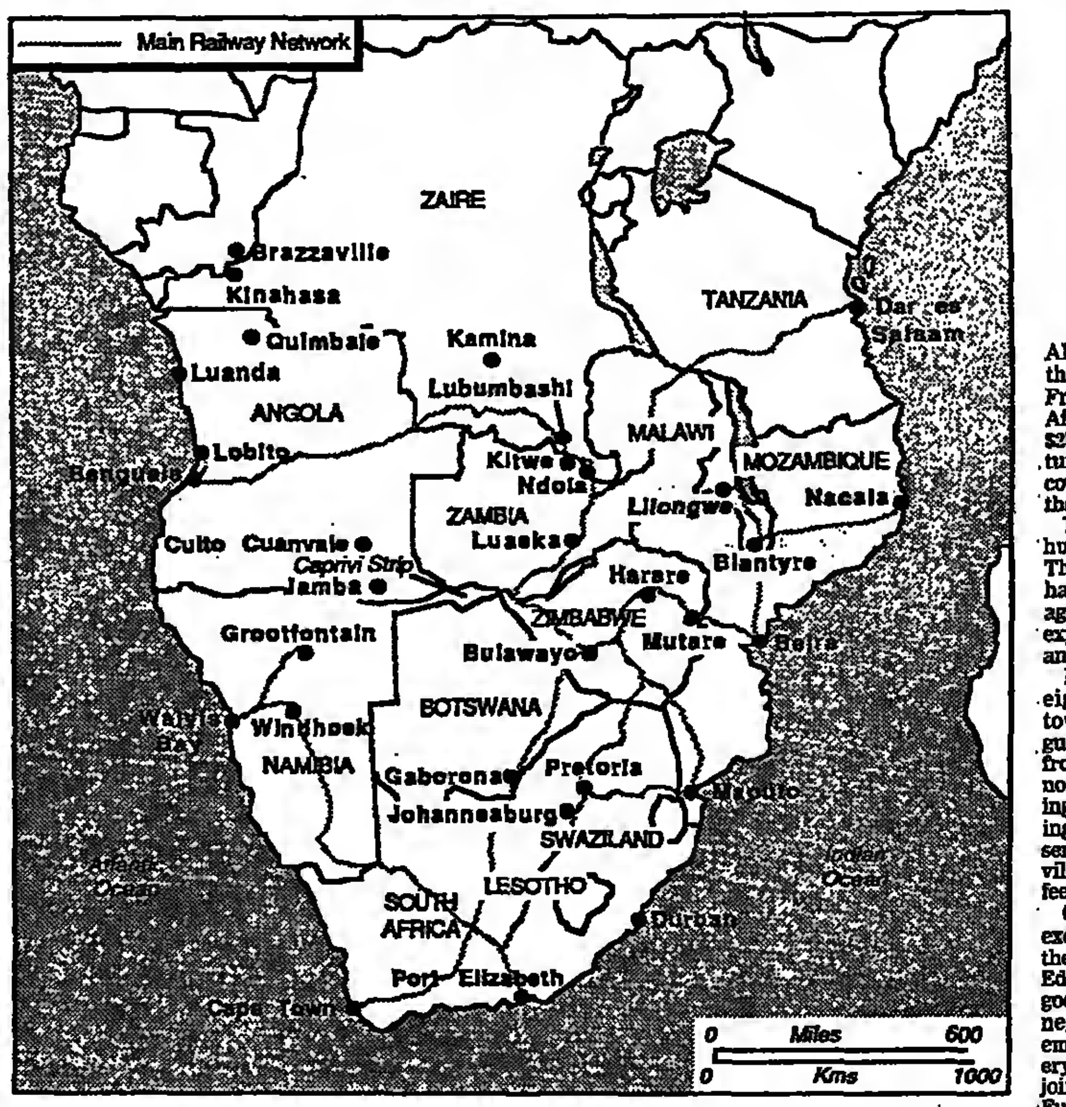
Zimbabwe, Tanzania and Malawi have all committed troops to the defence of trade corridors through Mozambique. Zimbabwe in particular can barely afford the cost.

Skilfully exploiting tribal and political differences in the so-called Frontline states, South Africa beams radio broadcasts in local languages far into central Africa. Restless minorities such as the Lozi of western Zambia and the Ndebele of Zimbabwe are typical targets.

Weaker countries – Lesotho, Swaziland and Botswana – are kept on a tight rein. When Lesotho started supporting the ANC too forcefully, Pretoria first backed the guerrilla "Lesotho Liberation Army", then strangled the economy and so precipitated the 1986 military coup.

Even those who try to make peace with South Africa face the risk of treachery, as Mozambique discovered when Pretoria flouted the 1984 Nkomati peace accord, which should have ended its support for the MNR.

There is now a chance that a new agreement can be forged by Mozambique and South Africa, and a faint hope that peace will break out in Angola and Namibia. But it would be an extraordinary step for South Africa to give up its military bases in the Caprivi strip of northern Namibia. *They allow Pretoria to strike* deep into the heart of Africa and remind the neighbours who is boss.



A regional who's who

ANGOLA: President Eduerdo dos Santos. Ruling party is the Movimento Popular de Libertacao de Angola (MPLA). Total armed forces: *53,000 plus 50,000 militia. Backed by* 40,000 or more Cuban troops.

Dr Jonas Savimbi leads the opposition Uniao Nacional para a Independencia Total de Angola (UNITA); guerrilla force of 26,000, equipped with US supplied Stinger missiles. Supported by South African troops, operating in southern Angola and from bases in northern Namibia.

NAMIBIA (South West Africa): *Administered by South Africe in* defience of UN resolutions. A locally appointed "transitional government of netional unity" enjoye limited powers. Main independence party: South West Africa People'e Organisation (Swapo), led by Sam Nujoma; guerrilla wing People'a Liberation Army of Namibia (PLAN).

SOUTH AFRICA: State president: P.W.Botha, leader of the National Party; armed services – 97,000 (active), 325,000 raservists; South West Africa Tarritory Force – 22,000. Main black opposition: African National Congress (ANC), headquarters in Lusaka, Zambia.

MOZAMBIQUE: Preaident Joaquim Chissano. Ruling party: Frente *de Libertacao de Mozambique* (Frelimo). Armed forces – 31,700. UK runs officer training programme. Foreign troopa: 600 Cuban, 850 Soviet, 60 N Korean military advisers; 500 E Garman security advisers raported. Soma 6,000-12,000 Zimbabwe troops (tha number varies) *plus units from Malawi and Tanzania* help protect main rail and road routes. Opposition: Unieo Nacionel Africano de Rombezia; military wing National Rasistanca Movement (MNR or Ranamo) – aatimated 18,000, up to 10,000 trained. Non-aggraasion pact with South Africa *signed in 1984, Mozambique agreeing* to end military facilities for the ANC, South Africa expected to stop *support for MNR.*

(Figures from "Tha Military Balance 1987-1988", International Inatitute for Strategic Studies, London.)

Fighting brings hunger to a land of plenty

BY VICTOR MALLET

ANGOLA IS financially by far the strongest of the black-ruled Frontline *states facing* South Africa with annual oil exports of $2bn. By realising its rich agricultural and economic potential the country could be an example to the rest of the continent.

Instead Angola today is prey to hunger, war and economic decay. The Soviet-backed government has seen its 13-year civil war against Unita rebels successfully exploited both by South Africa and by the US.

Perhaps half the country's foreign exchange earnings go towards the war effort. Unita guerrillas roam the countryside from the far sonth to the far north, disrupting transport, farming and industry. Diamond mining has begun to recover from a series of Unita attacks, bnt many villages and once productive coffee plantations lie abandoned.

Quite apart from the pressures exerted by the two superpowers, the *government of President* Jose Eduardo dos Santos has its own good reasons for coming to the negotiating table. Angola has embarked on an economic recovery programme and is seeking to join the International Monetary Fund, hut reforms without peace are unlikely to bear much fruit.

Despite the support of a growing expeditionary force of about 40,000 Cubans, despite the advantage of black Africa's most powerful air force, despite hundreds of millions of dollars in Soviet weaponry, it is now accepted by many Angolans that the war against the Unita guerrillas cannot be won on the battlefield.

It should not be forgotten that the failure this year by South Africa and Unita to capture the southern town of Cuito Cuanavale (if they ever wanted it) was no more than the sequel to a humiliating defeat for last year's government offensive aimed at Unita's south-eastern strongholds.

In the unlikely event of a swift South African withdrawal from Namibia and a consequent end to South African support for Unita, *the rebels will probably* be able to rely on Zaire, whose relations with Angola are becoming increasingly bitter. Indeed the Angolan Government has already accused Unita of planning to move its main base to Quimbele near the northern border with Zaire from Jamba in the south.

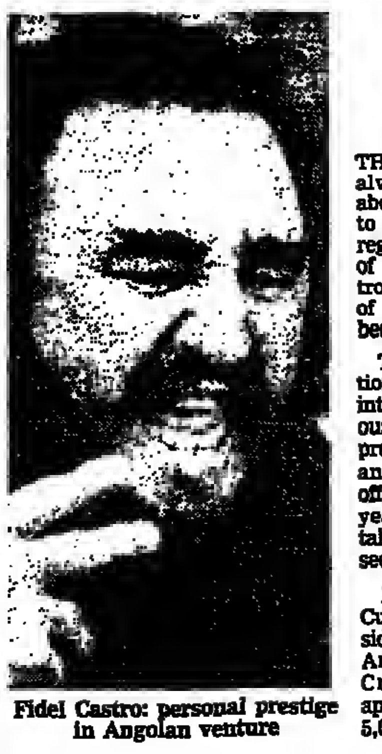
On the south-western front the Angolan side has taken the initiative during the peace talks by moving Cuban troops to within sight of the Namibian border. "The South Africans have retreated from positions in Cunene," says a western diplomat in the capital Luanda. "The Cubans have raised the stakes and so far it's worked."

Angolan government officials are delighted at South Africa's discomfiture in tasting its own medicine. The South Africans are reputed to have demanded (and been refused) assurances that the Cubans would not go into Namibia in South African-style "hot pursuit" raids against guerrillas.

Peace, however, remains the Angolan objective and there are signs that some Angolan leaders might compromise on Namibian independence if peace could be assured within Angola.

Angolan officials have also started to admit that Unita may be an organisation with a political pedigree and some popular support, not merely bandits in the pay of South Africa and the CIA. Mr Jonas Savimbi, Unita's leader, was after all trained in China and was once friends with respectable revolutionaries such as Che Guevara, Mr Sam Nujoma of the South West Africa People's *Organisation and President* Kenneth Kaunda of Zambia.

In the meantime ordinary Angolans with impassive faces – whether peasants, refugees, conscripts or orphans – stolidly sing political propaganda songs for visiting strangers. The nature of the song depends on who is holding the gun.



Fidel Castro: personal prestige in Angolan venture

Cuba's internationalist role at stake over Angola

BY ROBERT GRAHAM

THE CUBAN Government has always prefaced any remarks about South Africa by referring to the "racist" whita minority regime. Yet since the latest series of negotiations began on Cuban troop withdrawals and the future of Namibia, official language has been less aggressive.

This is just one small indication that the Cubans have gone into these negotiations with serious intent. For the Cubans, their presence in Angola is a complex and emotional issue, and their offer to carry out a phased four-year withdrawal has not been taken lightly, and should not be seen as pure posturing.

President Fidel Castro, the Cuban leader, has invested considerable personal prestige in the Angolan venture. With tha Cuban military presence approaching 41,000 and a further 5,000 to 6,000 civilian advisers accounts for over half Cube'e total overseas "internationalist" commitment.

This presence has been maintained at considerable sacrifice in terms of loss of life, and for Dr Castro to agree to withdraw he would need to be able to provide some tangible gain.

The gain would also have to reflect the fact that African solidarity plays a special role in the official mythology of Cuban support against international imperialism. Cuba's population contains a significant proportion of ethnic Africans who dominate particular elements of culture, notably music.

At a minimum therefore, the Cuban leadership would need to ha able to show that Angolan sovereignty had been fully respected (ie a full withdrawal of all South African and South African backed forces from Angolan territory). It would also require that Namibia is given a prospect of independence with international guarantees against South African interventionism.

Neither of these can be easily negotiated. However, the Cubans have been encouraged by what they see as a more "responsible" attitude on the part of the US. While having few illusions about Washington's ultimate ability to twist Pretoria's arm, the Cubans find the State Department less instinctively anti-Cuban.

Professor Wayne Smith, a leading expert on Cuba and a former State Department official, noted the change. "For the past seven years the Reagan Administration has been putting Angolan policy on the wrong foot, seeing the obstacle as the presence of Cuban troops. Now it is prepared to see that the main obstacle is the South Africans' unwillingness to give up Namibia."

Prof Smith also maintains that US pragmatism dealing wltb Cnba over Angola reflacts tbe compartmentalisation of the State Department. African Affairs are under Mr Chester Crocker, far less ideologically identified with the anti-communist right that controls policy towards Latin America. However, in the light of better superpower relations, the State Department overall is adopting a slightly less ideological posture towards Cuba.

As a result the ability to talk with Cuba over Angola has become part of a more general but discreet dialogue. On the assumption that Cuba would now like to break the deadlock of its isolationism with the US, ability to deliver its side of a deal on Angola would clearly help establish good faith.

Both Havana and Moscow may well share the need to achieve the basic minimum results in an agreement over Angola and Namibia. But it would be a mistake to assume that Cuba will act as told by the Soviet leadership, even though Havana is kept *afloat on Soviet aid.* Cuba has on occasions been more willing to take risks in combat than the Soviet Union would like and there have been reports of disagreement on tactics against South African incursions.

More important, Cuba stands to lose its main opportunity for large scale battle-ground experience and has to accommodate its troops once withdrawn. In Angola, the Government covers the cost of food and barracks accommodation. The Cubans deny they obtain more than this, but some US analysts claim the Cubans are paid by the Angolans.

Cuba has as mnch as 22 per cent of its armed forces in Angola. The number has been fairly constant over more than a decade and their assimilation inside the small island of Cuba will pose logistical difficulties. It also raises the question of the need for such a large standing force (especially if relations improve with the US), and what else might be done with them.

The Cubans are unlikely to accept that all their nationals *leave* Angola and will want to retain advisers and technicians, both because the Angolans need them and because so much of Cuban foreign policy is geared to an "*internationalist role*".

Most of these have had military training, and in the case of Grenada the US was more than willing to regard them as military *advisors even though they* were working in the construction and aid fields. Thus the South Africans could well try to argue the latter constituted a continued military presence, changing a Cuban military withdrawal to a total pull-out.

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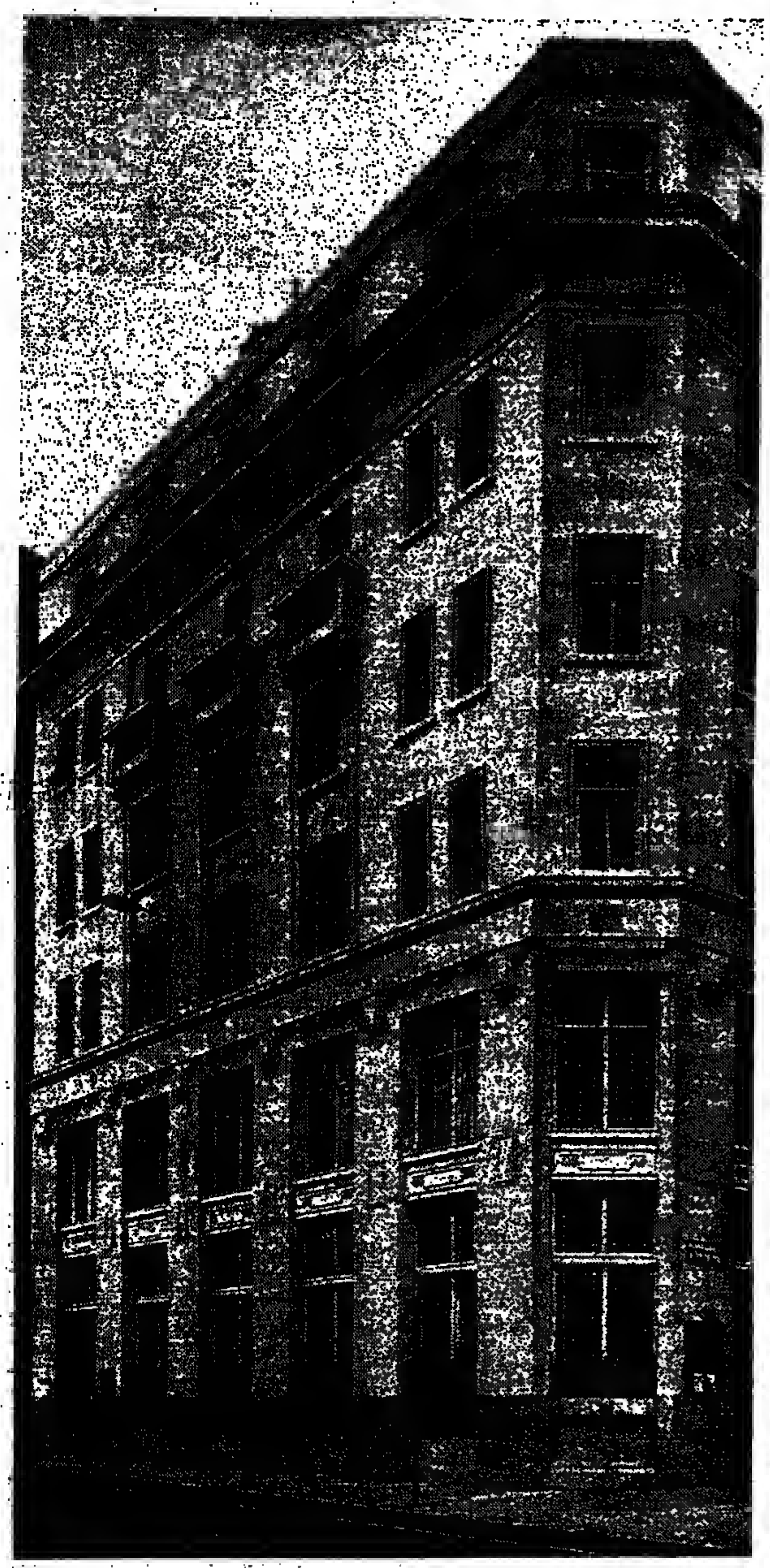

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Arab Gulf states warm to Soviet diplomatic links

BY ROBIN ALLEN IN DUBAI

SOVIET contacts with heads of state and senior officials in the conservative Gulf Co-operation Council (GCC) countries – comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE – have intensified.

The tone of the meetings has been noticeably warm on all sides, as were those earlier this year when Prince Saud Al-Faisal, the Saudi Foreign Minister, and Mr Hisham Nazer, the Oil Minister, visited Moscow.

These exchanges lend some credence to reports from Washington – attributed to Saudi sources – that Mr Eduard Shevardnadze, the Soviet Foreign Minister, will visit Riyadh in the autumn as a prelude to the resumption of full Saudi-Soviet diplomatic relations.

Once this happens, Gulf diplomats expect the Soviet Union to establish diplomatic relations with Bahrain and Qatar, the two other GCC countries without official ties. Although there has been no official comment from the Saudi Government, Gulf diplomats say that there is wide acceptance in US circles at least of the "clear direction," as one diplomat put it, in which Saudi-Soviet ties are moving.

Formal relations have been on ice – but never broken – since 1939 when the then Soviet consul and his staff were recalled to Moscow after the outbreak of the Second World War. Of the six GCC states, the Soviet Union has diplomatic relations only with Kuwait – since 1963 – and Oman and the UAE since 1985.

On June 21, Mr Ernst Zverev, the Soviet Ambassador to Kuwait, made the first official Soviet visit to Bahrain, where he was received by Shaikh Isa, the Amir, as well as by Shaikh Khalifa Bin Sulman, the Prime Minister and Shaikh Mohammad Bin Mubarak, the Foreign Minister.

Diplomats however noted the extensive coverage given to the visit by the country's state-run radio and television.

In Oman, Sultan Qaboos, the Head of State, accepted the credentials at the end of last month of Mr Victor Posuvaluk, the first Soviet Ambassador, and said the establishment of diplomatic relations was an expression of goodwill for the Soviet Union's "fruitful co-operation."

Gulf diplomats say a visit to Riyadh by Mr Shevardnadze is possible after August 15 – the date by which 50 per cent of the Soviet forces in Afghanistan will have left the country – providing they stick to the timetable agreed in Geneva on April 14.

The Soviet occupation of Afghanistan has been a big hurdle to the improvement of Saudi-Soviet relations. But it is thought that an exchange of ambassadors would not take place at least until after next February, the Geneva deadline for the withdrawal of Soviet troops.

Pakistan's GDP grows by 5.8%

By Mohammad Aftab in Islamabad

PAKISTAN recorded 5.8 per cent growth in gross domestic product in the year to end June 30, slightly up on last year's 5.7 per cent, according to the Ministry of Finance's economic survey for 1987-88.

Agriculture recorded growth of 4.5 per cent and industry 7.6 per cent over the year.

Half of the GDP growth was contributed by agriculture and industry, 33 per cent by services and 17 per cent by all other sectors.

Several factors adversely affected growth, the survey said:

● The south Asian drought, which hit Pakistani farming.

● Protectionism in the industrialised nations, deterioration in terms of trade and higher prices for imported crude oil.

● Repeated ethnic violence and rioting in Karachi, Pakistan's biggest industrial centre, which disrupted economic life throughout the country.

The rate of inflation was between 6 and 7 per cent during the year, up from 5 per cent in 1986-87.

Defence continues to be the largest single item of expenditure but its share has declined from 40 to 35 per cent over the last five years. Defence spending last year was Pakistani Rupees 47bn ($2.63bn).

According to the survey, Pakistan's current foreign debt is $12.48bn – up from $12.02bn in June 1987. The government's domestic debt is Rupees 272bn, the total investment in the economy during the year was Rupees 112.2bn in current prices - up 8.6 per cent from last year. National savings contributed 84.6 per cent, and foreign loans and assistance the remaining 15.4 per cent towards this investment.

The government's budgetary deficit, which was Rupees 53.6bn in 1986-87, is estimated to be about Rupees 60bn for the current year.

Home remittances from Pakistani workers abroad declined by 10 per cent from $2.3bn in 1986-87 to $2.1bn this year, as demand for workers decline abroad, particularly in the Middle East.

The current account deficit in the balance of payments is estimated by the Finance Ministry at $985m, compared with $719m in 1986-87

Hanoi PM stresses bid to end isolation

VIETNAM'S new Prime Minister, Do Muoi, said yesterday that Hanoi was trying to break out of international isolation by striving to resolve its nine-year-old military occupation of Kampuchea, AP reports from Bangkok.

The official Voice of Vietnam radio quoted Do Muoi as saying a day after his election that "the renovation in relations between Vietnam and foreign countries is very important."

According to the broadcast, Do Muoi said "to widen co-operation, first of all, it is necessary to maintain peace and security. Vietnam is striving to solve the Kampuchean issue. If possible, Vietnam will withdraw its army volunteers from Kampuchea before 1990."

Many non-communist Western and Asian countries have denied economic aid to Vietnam and otherwise isolated the communist nation to protest against its late 1978 invasion of Kampuchea. Vietnam has said it will remove all its estimated 120,000 troops by 1990 and plans a pull-out of some 50,000 this year.

Hanoi-based diplomats say that Vietnam has given top priority to economic development and therefore wants to resolve the Kampuchea situation. Foreign Minister Nguyen Co Thach is to attend unprecedented peace talks involving Kampuchean guerrilla factions next month in Indonesia.

Do Muoi, a 71-year-old veteran organiser in the Communist Party and its third-ranking official, was named on Wednesday by Vietnam's National Assembly to replace Pham Hung, who died in March. His comments at a news conference in Hanoi were paraphrased in the official broadcast monitored in Bangkok.

He prefaced his remarks on expanding foreign relations by saying he would do his best to develop Vietnam's economy.

"There are also prospects for widening co-operation between Vietnam and Thailand and with other ASEAN countries," he said.

Vo Van Kiet, who had been acting premier, told the assembly on Wednesday that the people were "deeply worried" about rampant inflation, chaos in distribution of goods and acute food shortages in the northern provinces.

He said the government failed to anticipate the shortages, took no initiative to control their consequences or monitor hunger in some areas, and was indecisive on importing grain.

If the government had acted urgently and responsibly, he said, "we would have been totally able to avoid the regrettable consequences."

The shortages resulted from mostly weather-related crop failures last year. Vietnam has appealed to the world community for emergency aid, but received little because of the embargo related to Kampuchea.

Kiet criticised the indecisiveness and lack of consensus on many other pressing policies: prices, imports and exports, foreign currency and finances.

Hyundai car workers ready to return to work

WORKERS are preparing to resume production at Hyundai Motor after management and the union signed an agreement to end a 25-day-old work stoppage, Reuter reports from Seoul.

A company spokesman and union leaders told reporters they expected the assembly plant to operate fully from today.

The company gave workers a 30 per cent pay rise and made a special payment to encourage employees to work harder to make up a production loss of some 70,000 vehicles.

Hyundai is South Korea's largest car maker.

Witnesses said about 1,000 workers opposing the union leaders' decision to accept the management offer demonstrated outside the assembly plant at Ulsan in the south-east. The union had originally called for a 34.6 per cent increase.

"We know that a small radical group did not want to accept the company offer," said a union leader. "But I am sure the vast majority of the 24,000 workers back the union leadership. Thousands of workers are now checking the assembly lines to reopen the plant."

The company spokesman said the plant would now operate round the clock, rolling out a capacity 2,700 vehicles daily.

Australian miners' strike gains support

AUSTRALIA, the world's largest coal-exporting nation, is losing up to US $35m a day in lost shipments as a miners' strike gains support, officials say, Reuter reports from Sydney.

Mineworkers in northern New South Wales say coalfields voted on Wednesday to join miners in the rest of New South Wales and in Queensland who went on strike last week over changes to work practices.

It was not clear how long the strike would last. Union leaders have threatened a 10-day strike, but some said they expected all 25,000 workers to return to work by the end of the weekend.

The changes to work practices proposed include seven-day, 52-week rosters, and annual leave allocated by the company instead of at the discretion of workers, as is currently the case.

Australia exported 95.7m tonnes of coal in 1986-87 and was aiming for 104m tonnes in 1987-88.

China reconsiders policy of encouraging private coal mines

BY ROBERT THOMSON IN GUIYANG, CHINA

A SPATE of serious accidents in non-state coal mines has forced the Chinese government to reconsider its policy of encouraging individuals and collectives to open mines to satisfy growing energy needs.

The problem is particularly serious in backward provinces such as Guizhou. Officials in the provincial capital, Guiyang, have estimated that 90 per cent of small, rural mines rely on natural ventilation, and most are run by former farmers with little knowledge of mining techniques.

At least 47 miners were killed in a gas explosion in a private Guizhou mine last month, two years after the mine had been ordered shut when an explosion killed two miners.

Such incidents have forced reformers in the Chinese leadership to defend the freedom granted to individuals in the mining of resources generally, and confirmed the doubts of some Communist Party officials known to believe that the reforms have allowed small-time capitalists to prosper at the state's expense.

Zhu Shuhong, vice-director of the Energy Ministry's general office, said most of the accidents were in "mines opened without government permission," and guaranteed that there would be stricter monitoring of smaller mines. The government is keen to blame illegal mines for the problems to divert attention from small, legal operations.

But Energy Ministry figures, based on an estimate that 17 miners die in small, rural mines for every million tonnes of coal mined, suggest that more than 5,000 miners were killed in accidents in this sector last year, when rural mines accounted for 35 per cent of the 920m tonnes mined nationally.

Government officials in Guiyang explained that controlling the non-state mines was particularly difficult, as they are often in remote areas, yet are needed to bridge a big energy gap. Last year, 31.7m tonnes of coal was mined in the province, of which only 9.5m tonnes came from state mines.

A senior official of the main provincial newspaper, the Guizhou Daily, said numerous accidents went unreported because if all were covered "we would have stories in the paper every day."

US growth forecast revised upwards

By Anthony Harris in Washington

THE US Government has revised its growth forecast for 1988 up from 2.9 per cent, as stated in President Ronald Reagan's budget proposals, to 3.5 per cent, year on year. However, the pace of expansion is expected to slow in the second half of the year.

Dr Beryl Sprinkel, the chairman of the Council of Economic Advisers, who announced the figures at a White House briefing yesterday, said he did not think the economy was overheating, and expected that interest rates would soften in the second half of the year as the expansion cooled.

However, the forecast for interest rates through the year has been revised up by half a point, in line with experience in the first five months of the year.

He added that the chances of a recession in the remainder of President Reagan's term of office were now "astronomically small".

The new forecast for growth through the year, fourth quarter to fourth quarter, is a more modest 3 per cent, given the high level of activity at the end of 1987. The second revision of the first-quarter GNP growth figures confirmed that this rate was exceeded at the beginning of the year: the expansion in the quarter is now put at an annual rate of 3.6 per cent, compared with a first revised estimate of 3.9 per cent.

The biggest revision is a cut in the figures for public spending. Federal spending is now thought to have fallen at an annual rate of nearly 3 per cent in real terms in the first quarter, and thus left room for a sharp improvement in real net exports. Personal outlays grew in line with gross domestic product, while private sector investment, except for housing, rose sharply.

While the faster rate of growth should boost government revenues during the year, the higher interest rates have boosted expenditure, and Dr Sprinkel declined to say whether the revised forecast would result in a higher or a lower federal deficit on balance.

Mr William Miller, the Director of the Office of Management and the Budget, has made several speeches recently warning that the higher-than-expected cost of servicing Federal debt would push the deficit for fiscal 1989, which begins in October, well above the Gramm Rudman limits.

This would result in automatic cuts in defence and other discretionary spending of perhaps 3 per cent if a tighter 1989 programme was now put in place.

More troops for Panama

The US Defence Department has ordered that 250 additional US military personnel be sent to Panama, most of them to provide logistical and administrative support to the troops already there, AP reports from Panama.

The deployment of a 50-man Air Force security team and 200 army troops brings to roughly 2,250 the number of additional military personnel sent to Panama since early this spring. It was from then that the administration of President Ronald Reagan *began pressuring military* leader Gen Manuel A. Noriega to step down and return the government to civilian rule.

BRAZIL DEBT AGREEMENT

A formal end to interest suspension

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

BRAZIL'S more than 700 creditor banks will receive later this week the term sheet containing details of the preliminary agreement between Brazil and its 14-bank advisory committee.

The following are the main points of a statement issued by Brazilian Finance Minister Mr Mailson da Nobrega and the chairman of the bank advisory committee, Mr William Rhodes of Citibank:

The package represents the commercial bank portion of a financing plan, with the support of the International Monetary Fund, World Bank and Paris Club of western creditor nations.

Brazil will make an interest payment of about $350m today to creditor banks to cover March 1988 interest, and peyments of about $1bn on June 30 to cover interest arrears for April and May.

The statement said: "The effectiveness of (the) agreement will allow Brazil to regularise interest paymeots to commercial banks within the next few months and to terminate formally the suspension of interest instituted on February 20, 1987."

The package contains e "significant new menu of options, providing bank creditors with different incentives to participate".

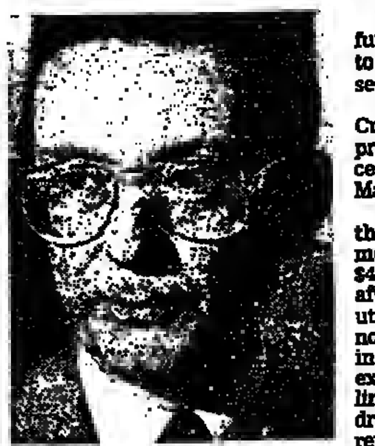
New monay totals $5.2bn to cover its external financing needs for 1987, 1988 and the first half of 1989. The facilities comprise $750m in co-financings with the World Bank, $2.85bn in parallel financings with the World Bank, $1bn in new money bonds and a $600m medium-term trade deposit facility.

A rescheduling of about $61bn of Brazil's roughly $67bn medium- and long-term debt to commercial banks. Banks will be asked to extend for another 2½ years previous commitments to maintain roughly $15bn in short-term interbank lines and trade related credits.

Interest margins on new money facilities, bonds and restructured debt will he 13/16 percentage point over money market rates. An early participation fee of ⅜ per cent is payable if commitments are made before August 5, and of ⅛ if before September 2.

World Bank co-financings are expected to involve tbe power and trade sectors, and will be provided in conjunction with $1bn in World Bank loans. Drawdowns under parallel financings will be parallel with World Bank Executive Board loan approvals and with drawdowns of World Bank loans, as well as with the IMF programme. The financings and the new money bonds carry a 12-year maturity with a five-year grace period. The $600m trade deposit facility will all come due after nine years.

Special Investment Feature: Banks which are new money participants will be able to invest a proportion of their commitments into Brazil at face value. The amount available for such investments is $50m a month throughout e three-year period beginning one year after the critical mass of commitments to the package is attained. This is in addition to existing debt for equity facilities.


William Rhodes

Other Options: Exit bonds will be issued up to $5bn and will at first be available at a maximum of $15m per bank in exchange for the same amount of Brazilian public sector debt. They will carry a fixed interest rate of 6 per cent and will mature in 25 years with a 10-year grace period. The bonds will be exchangeable at par into a new issue of indexed cruzado-denominated Brazilian Treasury obligations. Brazil is also considering a debt-for-export programme, for which the bonds may be usable in swap operations.

Banks will be able to re-lend funds, with specified total limits, to Brazilian public and private sector borrowers.

Percentage and base date: Creditor banks will he asked to provide in new money 11.4 per cent of their obligations as of March 31 1987.

Drawdowns: Thare will be three drewdowns of the new money. The first drawdown of $4bn is expected for Octoher, after approval from the IMF executive board of the country's economic programme, expected late in July. The second drawdown, expected during December, is not linked automatically to an IMF drawdown. It will depend on a report from the IMF on Brazil's progress under its programme. The third drawdown, in the first half of next year, will be related to performance targets and some drawings, although banks may waive this requirement if 85 per cent agree.

Restructuring: The $61bn in loans maturing between 1987 and 1993 will he rescheduled with final maturity in 2007 and principal payments starting in 1995, when 2 per cent of the principal will become due.

Interim agreement: Under the terms of an interim agreement announced in November, $2bn will be disbursed when the package becomes effective, and a further $1bn will be made available from Brazil's reserves. This $3bn will be paid to creditors to cover interest arrears from February 20 1987, until October 1.

Significant step in history of debt crisis

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

THE preliminary accord announced this week between Brazil and its leading creditor banks is a significant step in the six-year history of the debt crisis. But the battle to secure the country'a full return to the established framework for finding a solution to the debt crisis hangs on the response of the bundreds of creditor banks to which Brazil owes money.

Failure to raise the $5.2bn in new funds would be so destructive to this established approach, and such a potent signal to the rest of Latin America, that it is hard to contemplate. But, as Mr William Rhodes, the chairman of the bank advisory committee said yesterday: "It's going to take e massive effort to sell this, but that's just what we are planning to do."

"It goes a long way towards restoring Brazil to creditworthiness," he said. Yet that final step will only be made when the payments under the accord are made, and that requires agreement from almost all bank creditors.

The main significance of the agreement lies, of course, in its *potential for bringing Brazil back* into the fold. In the banks' view, it should also demonstrate that suspending interest payments to banks, as Brazil did in February last year, might be superficially attractive, but does not reap rewards. The accord will bring savings on interest alone of more


Mailson da Nobrega: bearing the brunt of the internal battle

than $500m a year.

However, there are obviously important consequances for banks. The agreement, following the significant expansions of loan loss provisions made by US, British and Canadian banks last year, is the first to be structured with an eye on the bank regulatory euthorities in these countries.

The *aim has been to distin*guish as much as possible the new money from the old loans, by enhancing the quality of the new credits. This is done primarily through the extensive World Bank participation in the package, which is regarded as improving the credit quality of the new loans.

A special investment feature, whicb allows debt-for-equity swaps at face value for new-money lenders, and exit bonds, more attractive than any before offered, are also included.

All are meant to encourage banks to participate, to discourage tbe so-called "free-riders" which make no contribution to new-money packages, and to *underline to regulators the point* that banks should not necessarily have to make provisions on the new money to the extent they have on the old.

There are also significant potential effects on earnings, if not immediately, despite the pay-out of $1.35bn by the end of this month in back-interest. Most US banks are likely to put these pay*ments into a reserve until the* whole package is agreed in October, which suggests that the benefits will accrue to earnings in the fourth quarter of this year. For Canadian banks, the conclusion of the deal in October is an important target date since their fiscal year ends then.

The US banks that would benefit most are Citicorp (end-1987 exposure to Brazil of $4.9bn) Chase Manhattan ($2.74bn), BankAmerica ($2.70bn) and Manufacturers Hanover ($2.1bn). Midland ($2.2bn) and Lloyds ($2.0bn) would he the biggest beneficiaries among the British banks.

The 14 banks in the advisory committee have already committed themselves to expanding their *short-term trade and other* lines to pre-moratorium levels. Banks have in any case been doing this, and extending maturities since the start of the year.

The improvament this has meant for Brazilian foreign exchange reserves coupled with the sharp improvement in Brazil's external position, which should provide a current account *surplus of $13bn this year*, has put the country in a position to maka interest payments this month.

The negotiations to arrive at this agreement have been long and tortuous. But it was less than a year ago that Mr Luiz Carlos Bresser-Pereira, the former Brazilian finance minister, was pushing a plan to turn $35bn *of its bank debt into long-term* securities at a below-market interest rates and a deep discount, a plan quickly condemned as "preposterous" and "unworkable".

Now if the picture for Brazil looks more optimistic, leading bankers are still cautious. If they can convince their fellows that it is in their enlightened self-interest to lend to a country with a buge economic potential, then part of the battle is won.

The rest of tha battle lies inside Brazil and, in the opinion of many, much of it on the shoulders of one man: the successor to Mr Bresser-Pereira, Mr Mailson da Nobrega.

Resignations rock fragile party groupings

BY IVO DAWNAY IN RIO DE JANEIRO

THE LONG-EXPECTED break-up of Brazil's fragile party groupings is well underway following a series of resignations last week from the dominant Democratic Movement Party (PMDB).

Key members of the party that began more than 20 years ago as the focus of opposition to the military regime quit to form the Popular Democratic Party (PDP), positioned on the centre left.

Among those resigning in favour of the PDP were Senator Fernando Henriqne Cardoso, PMDB Senate leader, Senator Mario Covas, the party's overall laader in Congress and Mr Franco Montoro, the former governor of the *state of Sao Paulo*.

They say the PMDB has broken with its progressive centre-left tradition and that many of its members have been induced by favours liberally distributed by the President'e Planalto Palace into supporting a conservative government.

Their departure has left the PMDB'a veteran president, Dr Ulysses Guimaraes, at the head of a rump grouping thet still includes most state governors but is far from his own socially progressive roots.

At the same time, the right-wing Liberal Front Party (PFL) – the second largest grouping in Congress – has itself divided into those who support and those who oppose the government of President Jose Sarney.

*The reshaping of Brazil's Congress follows Mr Sarney'e suc*cessful attempt at a five-year term of office. With presidential elections scheduled for November next year, mnch of the manoeuvring is aimed at enhancing potential candidates' chances in the two-round ballot.

In fact the PMDB, which won some 303 seats in the 559-member Congress and all but one state governorship in its landslide victory in November 1986, has proved wholly incoherent over recent months.

With Congress sitting as a constitution-writing assembly, party discipline has proved non-existent with members frequently engaged in furious disputes across the floor of the chamber. Efforts to create other groupings snch as the shortlived centre-right *Centrao*, or Big Centre, also failed.

In the same way, the PFL has been riven with schisms, most painfully over whether it should continue to support the government. Sen Marco Maciel, the party president who resigned last year as Mr Sarney's chief of staff, has long been advocating the candidature of Energy Minister Aureliano Chaves as the PFL candidate for the presidency.

Now both men have split the party over whether to remain loyal to the government.

The chaos and political uncertainty that that these schisms have provoked is likely to continue until congressmen align behind presidential candidates.

It will allow President Sarney considerable latitude in his decision-making, though leaving the Congress as unpredictable as ever.

Drought 'will not lead to big rise in US food prices'

BY ANTHONY HARRIS IN WASHINGTON

FOOD prices in the US should rise only moderately this year, even if the crop damage from the current drought leads to a 25 per cent loss – exceeding the experience of 1934, tha worst drought on record.

These estimetes ware published yasterday by the US Dapartment of Agriculture, which claimad that official reserves of the worst hit crop, corn, together with farm stocks held as collateral for official loans, should be more than adequate to meet bome demand and export commitments this year.

Reserves of wheat were adequate to ensure that domestic demand could be met this year, but export supplies might be unavailable if losses were severe. However, the winter wheat crop, which accounts for 85 per cent of total yield, is reported to be in good condition despite the drought. The damage is limited to spring wheat, which is severely threatened.

The soybean crop will probably be worst affected, but the department said that oilseed prodnction worldwide is expected to reach record volumes this year, so the effect on prices should be limited.

The biggest impact will be on the cost of animal feed, and emergency feed programmes are the immediate focus of the drought relief measures which were being atudied at a Chicago meeting between Mr James Lyng, the Agriculture Secretary, and the governors of the worst-affected states.

Beef prices have fallen sharply in recent weeks as animals have been sent for slaughtar early because feeding at current costs has become unprofitable. The department is concerned about possibla shortages in the next few years if the breeding herd is too severely depleted.

The statement estimates that as much as three quarters of the present 4.1bn bushel stock of corn might be needed to cover the year's shortfall, while wheat stocks were severely depleted in an export drive last year.

Guerrillas call for peace talks

By Sarita Kendall in Bogota

M-19, the Colombian guerrilla movement which kidnapped leading Conservative politician Alvaro Gomez Hurtado at the end of May is demanding a new nationwide peace dialogue as a condition for his release.

The three main political parties – Liberals, Conservatives and the left-wing Patriotic Union – are holding talks to re-establish peace and "to assure an authentic national reconciliation."

M-19'e commander referred to these as tired solutions, and spoke of "new schemes" which he did not, however, define. In confused statements he said life for the nation meant life for Mr Gomez, but war would not necessarily lead to his death.

M-19's public proposals puts the Government in a difficult position. While echoing other calls for peace it follows years of peace plans which have collapsed into greater violence.

In effect, M-19 is trying to force the Government into recognising a state of war.

Cautious welcome for G7 decision on African debt

BY ROBERT GRAHAM

LATIN AMERICA'S chief economic think-tank, the UN-sponsored Economic Commission for Latin America and the Caribbean (ECLAC), has given an unusually encouraging welcome to the decision by the Group of Seven Toronto summit to alleviate the debt burden of the poorest countries in Africa.

ECLAC has traditionally taken a critical view of the policies of the leading industrial nations towards the Third World, and in particular their attitnde over debt matters. The latter'a cautious but positive reaction to the communiqué from the aummit this week indicates the adoption of a less confrontationist stance and a desire for a dialogue on the debt crisis which Mr Gert Rosenthal, ECLAC's director, believes is far from over.

Mr Rosenthal said the G-7 position on the debt of the poorest countries was to be welcomed, not only because the issue was on tha summit agenda, but because "it provides further confirmation that for many countries alleviation of the debt burden conatitutea a prerequisite for returning to the path of growth".

While acknowledging that the summit addressed itself to the plight of Africa, Mr Rosenthal urged that the same spirit prevail in negotiations over Latin American and Caribbean debt.

"The decision adopted in Toronto establishes an encouraging, albeit inadequate, trend towards convergence between the demands which the debtor countries have been voicing for some time past and the standpoint of the principal creditor countries. In other words, both the scale of the relief and the various means of providing it bave gradually evolved along the *lies desired by* debtor countries."

Mr Rosenthal said that for the first time "governments of important creditor countries are beginning to accept the idea that, in cases of certain countries, condonation of part of the accumulated debt must be included in the set of measures aimed at overcoming the problem".

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Sony chooses Stuttgart as European TV base

BY STEFAN WAGSTYL IN TOKYO

SONY, the Japanese electronics group, has moved the headquarters for its European television operations from Tokyo to Stuttgart, West Germany, instead of Bridgend, in Wales, site of its oldest and largest European factory.

The group said yesterday it rejected Bridgend because it would be easier to hire engineers in Stuttgart.

The decision could provoke cnncern in Britain about the future pattern of Japanese investment in Europe.

While tha UK has so far received the largest share of Japanese investment in Europe, it could lose ground as Japanese companies move from establishing assembly plants to setting np more aophisticated engineering operations.

Many Japanese companies see West Germany as a more fruitful ground for technological collaboration than the UK.

Matsushita Electric, the largest Japanese consumer electronics company, yesterday revealed it was negotiating with Grundig, tha West German electronics company, for Grundig to take a stake in Matsushita'a video-recorder mechanism operations in West Germany.

In a separata deal, Matsushita is considering investing in a Grundig factory which supplies components to the Matsushita plants.

Matushita said it had no ventures of this kind in mind in the UK.

Mr Hiroshi Fujiwara, a deputy director of the Japan External Trade Organisation, said many Japanese companies believed West Germany was a strong force in many technologies. As a result, when companies were looking to set up high technology facilities "West Germany was a prime target".

However, Britain was a favoured location for research and development centres - because of its high-quality research scientists, said Mr Fujiwara.

Nissan, the second largest carmaker, earlier this year announced it would be setting up such a laboratory in the UK.

Matsushita said yesterday that the UK was the preferred site for a proposed company research and development centre.

Sony said the headquarters for European television was being moved to Europe to hring the company closer to its markets.

The group said it had been following a policy of localising functions throughout the world well before the recent resurgence of fears about trade friction between industrialised countries.

Some 70 staff, including 50 engineers, will work at Fellbach, in Stuttgart, site of Sony-Wega, its West German plant.

The centre will be responsible for tailoring prodncts to the European market - to meet local technical standards and tastes.

Sony-Wega employs 650 people in audio, television and video – less than half the 1,400 workers at Bridgend, which makes only television tubes and televisions.

Mr Rainer Kurr, recently appointed general manager for the European telavision operations, said "the key reason" for choosing Stuttgart over Bridgend was that Stuttgart, a university city, was considered a high-technology area within West Germany.

Japan to take more beef from Australia

JAPAN has agreed to open its market to more beef imports from Australia, government officials said, Reuter reports

Mr Takashi Sato, Japan's Agriculture Minister, approved the agreement soon after arriving in Canberra, where he met Mr John Kerin, Australia's Ministar of Primary Industries and Energy.

The agreement, under which Japan will phase out beef tariff barriers over three years, will be signed by the two ministers in Canberra today, the officials said.

Japan last week signed a similar bilateral agreement on beef with the US, its other major beef supplier.

The two bilateral agreements outline quotas to apply until the three-year phase-in period is over.

They eliminate the special arrangements which, under the current quota system, enabled the US to export more expensive cuts of beef to Japan.

Australia's share of Japanese beef imports fell from 81 per cent in 1976 to 57 per cent in 1987 as a result of those arrangements, Australian officials said.

Japan Eximbank considers $400m loan to Turkey

BY PETER MONTAGNON, WORLD TRADE EDITOR, IN TOKYO

THE Export-Import Bank of Japan is considering a large loan to Turkey which would mark the first time the bank has made untied credit available in support of policy adjustmeot rather than to finance trade.

Details of the loan are under discussion in Ankara, but it could amount to as much as $400m (£222m) and would be made available as a co-financing with a World Bank loan to finance restructuring of Turkey's financial sector.

The loan would be part of a series of operations in developing conntries that Eximbank has undertaken in the context of Japan's policy of recycling its large trade surplus. Under this programme, Eximbank is schednled to make $9bn in untied loans available by the and of March 1990.

So far, the bank has made commitments under this programme amounting to $4.34bn. Though several of these have been co-financed with the World Bank and regional development banks, they have all so far been designed to financa specific infrastructure development projects.

Bankers in Tokyo say the switch to policy-linked lending in the case of Turkey reflects the Eximbank's favourable experience with that country to date.

Turkey has already benefited from two loans under the programme totalling $580m to finance development of its energy sector and of tourism.

Turkey faces a need for fast-disbursing loans and, following a government clampdown on new infrastructure projects, there are fewer opportunities for project-based business.

Among other operations under its $9bn programme, Eximbank is starting to consider a series of loans for Brazil that could be worth as much as $1bn, and was due this week to sign a $250m loan to Algeria.

Though loans under the programme are untied to Japanese exports, local companies have been able to bid for work on the projects involved. In the most recent case of a $120m credit to finance a hydro-electric power station in Chile, however, all the work went to European companies.

Such lending does not produce any immediate benefit to Japan, but officials believe it will help in building up long- term relationships with the recipient countries as well as improving relations with the industrial countries with which it competes

Canadians in race for Indonesia mine deal

By John Murray Brown in Jakarta

FORDING COAL of Canada and Sumitomo Mining of Japan are competing for a $120m (£66.6m) coal mine contract in Indonesia, using build, operate and transfer project financing.

The contract, which has still to go to tender, is to develop Bangko mine in South Sumatra to supply PLN, the state electricity utility. Bangko, which would be the first privatised state mine, has annual capacity of 2.5m tonnes.

Fording, a subsidiary of the Canadian Pacific Group, has proposed to deliver at $20 a tonne for the state-run Suralaya power station in West Java. It can expect to win Canadian government support under a soft loan, announced when Ms Patricia Carney, Canada's Trada Minister, was in Jakarta in January.

PLN has said it will import around 800,000 tonnes of Australian coal this year for the 3,400 MW Suralaya plant and is currently paying $40 a tonne. It is planned to raise capacity to 3,200 MW.

Offtake price for the coal remains the sticking point in negotiations, officials say.

Together with the Bukit Asam mine, South Sumatran coal output is projected to meet Suralaya's annual requirement of 5m tonnes, when the station'a third and fourth units are commissioned later this year.

Canada's Export Development Corporation was earlier involved in Bukit Asam, financing coal hopper cars, locomotives and rail equipment for the 400 km line to the Tarahan coal terminal.

China-Korea trade set to rise

BY MAGGIE FORD IN SEOUL

TRADE between China and South Korea is expected to rise to between $2.5bn (£1.3bn) and $3bn from last year's total value of $1.8bn, a Government economic advisory council reported yesterday.

Professor S.H. Kim, a council member, said bilateral trade had surged 58 per cent in the first three months of this year. Exports from Sooth Korea via Hong Kong jumped 95 per cent to $201m, while imports increased 31 per cent to $183m.

The council heard that direct trade, mainly involving coal, grain and steel, amounted to $600m last year. This year, indirect trade is expected to reach $1.9bn, up from $1.2bn last year.

Mr Kim said Peking's apparent interest in increasing ties with Seoul may be aimed at checking the infinence of Japan in the region.

A joint venture plant producing refrigerators was recently opened in China by Daewoo, the South Korean conglomerate.

● A new South Korean airline has signed an agreement with GPA, the aircraft leasing company based in the Irish Republic. The contract, worth $102.6m, involves the leasing of six Boeing 737-400 aircraft for five years.

The airline, Seoul Air International, is to start flying domestic routes late this year and hopes to extend services to Japan in late 1989. The airline'a president said that by 1994 it hopes to be operating 31 aircraft.

Owned by the Kumho Group, a transport and finance company based in the south-western city of Kwangju, the airline will provide competition on internal routes for the national carrier Korean Air for the first time.

Trade talks aim for Toronto momentum

BY NANCY DUNNE IN BRAINERD, MINNESOTA

A STEADY rain drenched the parched fields of Central Minnesota yesterday where trade ministers from the major industrialised countries gathered to prepare for their last private negotiating session before December's "mid-term review" of progress in the current round of global trade talks in Montreal.

Hoping to capture momentum from the Toronto economic summit, the trade ministers of the EC, Japan, Canada and the US began informal discussions on a heavy agenda which included: trade and services, investment, intellectual property rights, subsidies, tariff and non-tariff barriers and special opportunities for developing countries.

"December is only six months," said Mr Clayton Yeutter, the US Trade Representative. "We expect to have substantive discussions here."

Yet surprisingly, the contentious issue of agriculture subsidies was off the agenda, Mr Yeutter said - because the appropriate experts were not there.

However, agriculture and worries about the US drought – which is reckoned to have withered at least one half of the wheat, barley and oat crop in these northern plain states – dominated Mr Yeutter's speech.

If the relentless heatwave continues and crop prices stay high, the cost of farm programmes everywhere will shrivel. "This reduces the motivation for reform," Mr Yeutter declared.

Acknowledging that "we have to provide further motivation," he warned of "unpleasant consequences" of congressional action next year if half way through the Uruguay round, negotiators fail to produce meaningful progress on agriculture.

"We could have the 1990 Farm Bill in 1989," he said, implying that new export snbsidies or retaliatory measures could result. The drought, however, if it persists, removes a major weapon from the US arsenal as farmer and government-owned surpluses plummet.


Mr Clayton Yeutter

Mr Yeutter last week acknowledged that the Export Enhancement Programme, which uses government stocks to subsidise exports aggressively, is at risk.

Here, however, he insisted that the EEP would not be affected in the near future.

Despite the drought, there was no chance that the Reagan Administration would agree to an export embargo on any of its crops, Mr Yeutter went on.

He was determinedly optimistic about the chances for progress on agriculture in Montreal. The Toronto summit, he insisted, provided an advancement, although the final communique gave the EC much of what it wanted in its mention of short-term measures and its failure to call for a phase-out of export subsidies by a certain date.

"Read between the lines," Mr Yeutter said. "We now have a general agreement on how we can measure progress, although we have not decided how it will be used."

The summit was a small step forward, but a lot of steps remain to be taken by the Administration.

Seiko to set up in Thailand

THREE Seiko group companies are planning to set up separate snbsldiaries in Thailand to assemble watches, clocks and other items for export, Hattori Seiko of Japan said, Renter reports from Tokyo.

Seikosha, wholly owned by Hattori Seiko, will establish a wholly-owned offshoot Seikosha Thailand, to produce clocks and parts. Its new factory, due to start production in May 1989, will aim at an annual output equivalent to 1m clocks within two years, Seiko said.

Seiko Instruments will set up another wholly-owned company, Seiko Instruments, to make parts for watches and fan motors for office equipment, to be supplied to the Seiko Instruments factory in Singapore.

The company's new factory is due to start production in April next year, and will eventually produce tha equivalent of 4m watches a year.

Seiko Epson is to establish a subsidiary to produce watches at a factory which will begin operations in May 1989. Its target is annual sales of 3m in two years.

Seiko Instruments and Seiko Epson do not have a relationship in terms of capital with Hattori Seiko, but make watches for it.

● AT & T plans to invest $46m (£25.5m) in a plant in Thailand to make corded telephones, mainly for the US market, Reuter reports from Bangkok.

AT & T said the plant will make up to 5m telephones a year when production starts in early 1990.

It will allow the transfer of AT & T's corded telephone- making operations from Singapore which will continue to produce cordless and other more sophisticated telephone equipment.

Singapore order for Milan unit

FOSTER WHEELER Italiana, the Milan-based subsidiary of the US engineering group, has won a $130m (£72m) contract from Esso of Singapore to build a visbreaker – which breaks down heavy oils – for the petroleum refining sector, Alan Friedman reports from Milan.

The turnkey order calls for Foster Wheeler to design and construct the visbreaker and to supply materials.

William Dullforce in Geneva reports on the latest findings of Barlow Clowes' liquidator

'Extensive web' of companies linked to BCI

MR MICHAEL JORDAN, a senior partner of Cork Gully, the London accountancy firm acting as liquidator in the Barlow Clowes affair, yesterday discovered "a very extensive web of companies, much greater than I had imagined" related to Barlow Clowes International.

He spoke after spending the morning in discussion with Mr David Mitchell, the Geneva-based accountant with past bnsiness links to BCI and to Mr Peter Clowes, the fund manager at the centre of the affair.

In the afternoon Mr Mitchell and one of Mr Jordan's associates left by car for Vaduz, Liechtenstein. It is understood that at least three companies registered in the principality belong to the Clowes group.

One is the holding company for the Château d'Auros vineyard near Bordeaux, which is owned by Mr Clowes and of which Mr Mitchell is a director.

Mr Jordan said the "web" of companies he had discovered were all related to BCI and not to Barlow Clowes' gilts business. He preferred not to elaborate until he had completed talks with Mr Mitchell.

Earlier, in London, he had stated thet some £100m appeared to have passed through BCI, of which £85m had appeared in the Barlow Clowes loans book.

Before yesterday's meeting Mr Mitchell said Mr Clowes had released him from the confidentiality he was bound to observe as a fiduciary agent under Swiss law. He was therefore co-operating with the liquidators to help trace the assets that had passed through BCI.

Mr Mitchell was chairman of James Ferguson Holdings until it was taken over by Barlow Clowes. He helped establish Barlow Clowes and Partners in Geneva in 1986 but has said that he had no connections with it in 1987 and was not a director of any of the Barlow Clowes companies in Gibraltar.

On Wednesday Mr Nigel Hamilton of Ernst & Whinney, the joint liquidator, talked to Mr Gabriel Oltramare, the Geneva lawyer who is a director of Charnwood Company, the name to which Barlow Clowes and Partners has changed.

Temperature rises as investors face their worst fears

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

MORE THAN 1,000 people, mostly investors in Barlow Clowes' financial empire, many of them of mature years, all of them sweltering in the summer heat in an overflowing Manchester Town Hall, yesterday took the first legal steps to recover their money.

They had come from all over Britain to agree to form and to support two committees, one of solicitors, to manage and co-ordinate legal action, and one of investors, to ensure liaison between all parties. They will all receive a letter inviting them to pay £100 per investor to help to fund the stages of litigation.

The solicitors' committee will ensure that actions are not duplicated and intends to pool all information. It will research the likeliest targets to sue or pursue – but with a strict regard to their ability to pay.

"Cost-effectiveness" was a principle stressed by Mr Anthony Gold, of Manchester solicitors Alexander Tatham and Company. The £100 a head would pay for research, analysis and the planning of litigation, he said.

It would be no use spending money on actions that would not yield anything. When proceedings started there would be a further call on funds, but investors would know that nothing would start without a reasonable certainty of success.

It would also not be cost-effective to sue financial intermediaries who could not pay or who had insufficient professional indemnity insurance to cover a likely award.

Mr David Pine, the Tatham's partner in charge of the case, said the Department of Trade and Industry and the Barlow Clowes auditors might also be sources of remedy.

He had good news, he said, for the few investors who first put money into the Barlow Clowes funds in April or May. If a trust relationship could be established and the money was still in a specific account, they had a chance of full repayment.

However, this might lead to a conflict of interest between groups of investors, as might a demand from the liquidators of the Gibraltar funds for repayment of "intermingled" money from the UK gilts fund.

Co-ordination of the overall legal assault, with different firms of solicitors taking over specific interests and not fighting each other, was essential to winning in the end.

The end, however, is clearly going to be a long way off. "You'll have to be patient," Mr Pine told his audience.

It was also clear that they would have to be political. Payments arising from any fault of the DTI would be ex-gratia. "If anyone here has not yet written to their MP, I would advise them to do so quickly," one speaker from the floor said to a loud murmur of agreement.

The temperature rose gradually in both the physical and metaphorical sense as the two-hour meeting progressed. The press had been asked to leave to keep it private. The television crews did – but to loud, friendly applause as someone from the floor praised the media's efforts in exposing the affair.

Reporters took this as a signal to stay inconspicuously in the crowded corners of the great hall.

Few investors admitted to finding much comfort, only realising their worst fears. "It's going to take years and we may never get our money. I need it to live on," said one retired lady from Cheshire.

Union leader says domination of Labour Party should end

BY JOHN LLOYD

SUPPORT for an end to trade union domination of Labour Party policies through use of the block vote was expressed yesterday by the leader of the Amalgamated Engineering Union.

Mr Bill Jordan, general secretary of the 815,000-strong Amalgamated Engineering Union, said: "We've got to move towards policies which are voted on by individual members of the party."

The block vote is the system by which delegates of affiliated unions represent their members at the annual Labour Party conference, the key policy making body.

This is the first time a senior figure from a union with Labour Party affiliation has publicly associated himself with such a suggestion. A move of the kind mooted would signal a momentous break with a practice as old as the party itself.

Mr Jordan's remarks come at a time when the TUC faces a split over the likely expulsion of the electricians' union, the EETPU, with which the AEU is closely associated. The threatened expulsion, in turn, has led to speculation that a more distant relationship between unions and Party could now be in prospect.

Mr Jordan spoke in amplification of a brief interview he had given to BBC Radio Scotland earlier in the day, in which he had acknowledged that the public's perception of the dominance of the unions over the Party was damaging.

That perception has been sharpened by a recent warning from Mr Ron Todd, general secretary of the Transport and General Workers' Union, that nuclear disarmament policy – the subject of apparently contradictory recent remarks by Mr Neil Kinnock, the Labour leader – was decided by the party conference, at which the unions' block vote is decisive.

Mr Jordan said in the BBC interview: "There's no doubt whatsoever that the British people feel that the Labour Party . . . is in the hands of the trade unions. That's not a good image – their image has got to change if we are to have another Labour government.

"Perhaps we've got to look at the manner in which Labour Party policies are arrived at – and talk of more influence from individual Labour Party members."

Mr Jordan stressed that he would favour policy being decided by all members of the Party rather than by small groups, such as constituency general committees, which were often dominated by the left.

He said he had favoured a system of one member, one vote in the selection of Party leader, and added: "We've got to have policies based on the same principle."

He would wish to see the unions continue to exert some influence, and to have their voice heard. However, he added: "At the same time we have to demonstrate that we are not writing every word Neil Kinnock is saying. It's not true, but that's how it is perceived."

Commenting on his interview, Mr Jordan said he did not see such a change happening "within two or three years," partly because "the left wouldn't stand for it" but also because the practicalities of organising a vote on the issue in his own union, and elsewhere, would be costly and time consuming. However, he acknowledged that open debate might show support gathering for his stance.

The Labour Party declined to comment on Mr Jordan's remarks last night.

● The Transport and General Workers' Union has drawn up a confidential plan for an aggressive recruitment war with the EETPU electricians' union in Wales if the EETPU is expelled from the Trades Union Congress as expected.

The plan includes the setting up of "accommodation" branches within plants for EETPU members who want to acquire joint membership of the TGWU.

Report criticises Post Office planning

BY HUGO DIXON

THE MONOPOLIES and Mergers Commission is sharply critical of a £360m automation plan by the Post Office in a hard-hitting report published yesterday.

The report, commissioned by the Government in November as part of its continuing programme of examining the efficiency of public sector industries, focuses on the Post Office's counter operations. It makes 68 detailed recommendations.

One of most controversial is that the Post Office should consider downgrading most of its main offices into sub-post offices, which it does not directly manage, as part of a cost-cutting exercise. This goes further than the Post Office's own plan to downgrade 250 of the 1,500 Crown offices next year with up to 500 being converted later.

The recommendation provoked an immediate hostile response from the four Post Office unions.

The Post Office Users' National Council, the statutory consumer body, also said it was worried that the proposal would result in a lower standard of service, because sub-post offices would not automatically be able to offer all the services currently offered by the main offices.

The Commission's conclusion that the automation plan was "not financially justifiable at present" is particularly embarrassing to the Post Office because it threatens its long-term strategy.

This project is to install electronic equipment in 3,000 of the largest post offices, allowing the organisation to compete on a more equal footing with banks and building societies.

The Commission, however, felt the Post Office had not done its sums properly and recommended that the Government should not approve further funds until a planned pilot scheme had been properly tested.

The Post Office was also criticised for working practices described as "outdated and inefficient." The Commission said that £10m a year could be saved by ending such practices.

On a more positive note, the Commission decided that the Post Office was not operating against the public interest and had recently made improvements in its quality of service.

Mr John Roberts, managing director of Post Office Counters, said the report was "fair and balanced." Most of the recommendations were already being implemented or fitted in with the organisation's strategy.

Post Office Counters Services. HMSO. £11.80

UK may pull out of Cern project unless cost is cut

By David Thomas, Education Correspondent

THE BRITISH Government is threatening to withdraw from the Cern European particle physics laboratory in Geneva unless its contribution is cut by up to a fifth.

Cern, a world centre for particle physics research, is one of the largest laboratories in the world, with about 3,760 scientists and technicians, of whom around 500 are British.

The UK Government has repeatedly expressed anxiety about the efficiency of management at Cern, which has a £300m budget this year and completed a review of its management practices last year.

Britain is due to contribute about 16 per cent to this year's budget, which is met by 14 European countries. The UK contribution has risen by over 35 per cent in real terms in the last three years.

Mr Robert Jackson, Minister for Higher Education, yesterday told the Cern council in Geneva: "We are looking for early and substantial redoction in the level of British contribntion."

Mr Jackson: looking for early cut in contributions

Ministers are understood to be looking for a cut in Britain's contribution to about £45m before the Government decides later this year whether it should stay in Cern. Previous suggestions that Britain might withdraw from Cern have been widely criticised in the UK.

Mr Jackson acknowledged the high level of work done at Cern but called for two major reforms.

First, he said Cern should have a development plan for both materials and personnel np to the end of the century, so that member countries could be assured about the stability of costs.

Second, Cern should explore establishing closer working and constitutional links with other countries, partly in order to spread costs.

"The outcome could prove crucial, we believe, to the effective development of world physics and be a model for large world science facilities generally," Mr Jackson said.

Shell unit escapes threat of double payment in Rakoil case

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

BRITAIN'S MOST senior civil judges, sitting in the House of Lords, have acted to remove "a real risk" that a Shell oil trading company might be forced to pay twice, a $4.8m debt it owes to Rakoil, the state-owned oil company of R'As al-Khaimah, one of the Gulf oil states.

By a 4-1 majority the Law Lords yesterday cancelled a garnishee order which would have enabled an $8.5m West German creditor of Rakoil to obtain the $4.8m from Shell International Petroleum in part satisfaction of the debt owed it by Rakoil.

Shell has already been ordered by the R'As al-Khaimah Civil Court to pay the $4.8m to R'As al-Khaimah and threatened with moves against its assets in other Gulf states if it fails to do so.

The Law Lords said that Shell was an innocent third party, dragged into a dispute between Deutscbe Scbacbtbao-Und Tiefbohrgesellschaft (DST) and R'As al-Khaimah.

In 1986 DST was given leave hy the Britisb High Court to enforce, against Rakoil, an International Chamber of Commerce arbitration award totalling, with interest, $8.5m. The award had been made in a dispute arising from an oil exploration agreement between Rakoil and a consortium represented by DST.

R'As al-Khaimah and Rakoil challenged the jurisdiction of the arbitration tribunal and the Civil Court held that DST had no right to claim money from Rakoil in arbitration proceedings.

In June 1986, Shell became liable to pay Rakoil $4.8m for oil. The following montb the High Court granted DST an injunction stopping Rakoil removing from Britain debts due to it from anyone within Britain, up to $8.5m, and accepting payment of the debt due from Shell.

That order was intended to prevent Shell from paying Rakoil, pending a claim by DST for a garnishee order directing Shell to pay the $4.8m to DST.

In 1987 R'As al-Khaimah advised Shell that it was "not prepared to consider any further dealings" with Shell until the $4.8m was paid. The Civil Court ordered Shell to pay the $4.8m to the state and arrested a ship owned by an associate company of Shell.

In July last year tha High Court granted DST a garnishee order against Sbell, which appealed unsuccessfully to the Court of Appeal.

Allowing Shell's final appeal, Lord Goff said yesterday that the crucial question was whether there was a risk that, if the garnishee order were executed, Shell migbt, because of tbe Civil Court's jodgment, have to pay the debt twice.

The evidence, the judge said, established that there was a real risk that R'As al-Khaimah was determined to enforce the judgment and might succeed in doing so against Shell assets in other Gulf states.

Lord Goff also cancelled the July 1986 injunction against Rakoil under which Shell would be in contempt of court if it paid Rakoil.

Transport secretary defends fleet size

By Kevin Brown, Transport Correspondent

MR PAUL CHANNON, tbe Transport Secretary, yesterday lannched a counter attack against recent strong criticism from the Commons Transport and Defence committees over the rapid decline in the size of the British merchant fleet.

The Defence committee said the decline had alarming security implications, and accused the Government of a lack of direction.

The Transport committee urged the Government to recognize the "unarguable" case for supporting the fleet.

Mr Channon refnsed to answer qoestions abont the reports in advance of his written response to the Commons.

But in a briefing for journalists, he said the size of the UK-owned fleet had stabilised at 17.6m deadweight tons. This compares with a peak of 50m in 1975.

Mr Channon said he was satisfied that the fleet was adequate for civil resupply during wartime, the Transport Department's responsibility.

He also said there were signs that orders for new ships were picking np. British owners have placed orders for 16 ships this year, the highest level for some time.

These claims have already been disconnted hy the Defence committee, which said it would be "premature to regard the arrest in the decline as anything other than a temporary remission."

Mr Channon also drew attention to a Government amendment to the Finance Bill, relaxing the conditions under which seafarers can qualify for a 100 per cent income tax deduction.

The clanse will increase the number of seafarers paying no tax from 4,000 to 11,000, and is worth between £15m and £20m in a full year.

Mr Channon said this was equivalent to 15 per cent of the crew costs on UK registered ships, and was intended to encourage British seafarers to remain on British ships.

However, the concession will benefit shipowners only if seafarers' salaries are cut by an amount equivalent to their tax saving.

Microwave local TV test planned

BY RAYMOND SNODDY

GEC Marconi, the UK electronics company, will next week give what is claimed as the first public demonstration in Britain of MVDS – local microwave television.

The demonstration at the company's Chelmsford headquarters will be a relatively modest affair, using equipmeot from both Marconi and General Instrument of the US to transmit two channels of television and a channel of data.

Its main purpose, however, will be to show that the technology exists to use microwave communication to broadcast 12, or even many more, channels of television to areas with a radius of up to 30 km from a central transmitter.

Officials from the Department of Trade and Industry have been invited and the hope is that the demonstration will help to convince the Government that MVDS could be used to encourage the development of cable television in the UK.

MVDS is already common in the US, and involves using high frequencies to broadcast a large number of television channels over a local area. Unlike cable television, which requires the costly digging up of roads, MVDS cbannels are received by dish aerials on individual homes.

Supporters of MVDS argue that the technology could be used to eupply immediately new telavision channels in cable franchise areas while the lengthy task of laying the cable network is carried out.

MVDS could also be used to bring extra channels of television to areas which may not be economical to cable.

Until recently the Government appeared to be enthusiastic about MVDS and called for research on how a national system could be established. There are now signs of growing caution.

For many years tha Government has supported the concept of moderu cable television because in the longer term it offered the possibility of providing two-way telecommunication links, increasing competition in the telecommunications market.

The DTI is increasingly concerned that if MVDS broadcasts direct to individual bomes are legalised, it could become a substitute for cable rather than providing a temporary boost for cable company cash flows.

An additional complication is that the frequencies needed for the existing 2.5 gigahertz equipment will have to be surrendered, nnder European agreements, some time after 1992.

The Government is now seriously considering the possibility of offering cable operators the right to use MVDS for five years hnt only for thair main trunk routes – not direct to individual homes.

Under such a scheme the operators could install a transmitter on a block of flats or at the end of a street but would run cable to individual homes.

Sucb a cautious approach was criticised yesterday by Mr Peter Mothersole, managing director of V.G. Electronics of Hastings who says ba could produce MVDS transmitters for between £80,000 and £100,000, depending on the number of channels and power, within three to six months.

"You can't create artificial barrier against technology. They are by their very nature very fragile," Mr Mothersole said.

As the British Government continues its deliberations, the Republic of Ireland has decided to push ahead with an 11 channel MVDS system – the first national system in Europe.

Mr Ray Burke, the Irish communications minister, has called for applications for 30 franchises covering the entire country. Detailed applications are to be submitted by the end of August.

London Underground plans higher fares

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

FARES on London's Underground railway network will rise by more than the rate of inflation in the next three years but there will be no attempt to price passengers off the system to ease congestion, London Regional Transport said yesterday.

LRT, the state-owned authority which runs the capital's bus and underground networks, said: "Fare increases which unduly restrict the use of public transport would not be in London's best interests, and should therefore be avoided."

However, the authority said in a strategy document covering the next three years that fare revenue would have to rise in real terms to help to finance essential extra capacity and service improvements.

Mr David Bayliss, LRT's planning director, said no decision on the precise level of fare increases could be taken before the publication of two significant reports later this summer.

These are the Central London Rail Study, being carried out jointly with British Rail, the parallel authority responsible for the surface rail network, and the report of the public inquiry into the King's Cross Tube disaster, which finishes today.

In addition, revised financial guidelines for LRT are being drawn up by Mr Paul Channon, the Transport Secretary, for publication shortly.

These developments will set the level of investment in new capacity and safety improvements and the level of operating losses which the Government is prepared to subsidise.

However, an indication LRT's thinking on fare increases is given in financial projections in the strategy document, which indicate, for example, an increase in underground revenue of £55m between 1988/89 and 1989/90.

Given traffic volume growth at the current rate of 2 per cent annually, this would imply an increase in revenue from fare increases of £45.5m, or 9.6 per cent – more than double the current inflation rate of 4.2 per cent.

The strategy document acknowledges that the Underground is working at full capacity because of an increase in the annual number of riders to 812m last year from 563m journeys in 1983.

Little improvement is likely in the near future, because services have already been expanded almost to the limit that signalling systems and rolling stock permit.

In the short term, LRT hopes capacity can be increased marginally through the introduction of new trains, together with rebuilding at some of the most overcrowded stations.

The timescale for substantial improvements is very long. A £500m plan to rebuild the Central Line, one of the underground's nine lines, is not expected to start until 1992. A new line would take at least 10 years to complete.

Call for hospitals to publish death rates

By Alan Pike, Social Affairs Correspondent

BRITAIN'S hospitals should be required to publish comparative death rates as part of the drive to make the National Health Service more efficient, health authority leaders were told yesterday.

Mrs Julia Cumberledge, who chairs the National Association of Health Authorities, said at the association's conference in Harrogate that it was likely the Prime Minister's promised review of the NHS would favour greater competition in health care. If the state service was going to use the private hospital sector more, or compete with it, statistics on matters such as variations in death rates between hospitals would play an essential part.

She said the association was encouraging all medical specialties to monitor such standards of performance because "we recognise that no longer can we disguise our failures by stating the numbers of patients discharged without discriminating between those who are discharged through the front gate and those who are discharged through the Pearly Gates."

Mrs Cumberledge, referring to one of the most controversial issues touched on by the debate over the future of the NHS, namely the performance and control of consultants, said that the time had come for consultants to be employed on the same type of value-for-money, renewable contracts as now applied to many other NHS staff.

Pressure for increased competition in health care would make consultants' contracts into a crucial issue, she said. The thrust of management development within the NHS was towards shorter contracts, which were renewed according to measurable criteria of performance. Health authority members, chairmen, general managers and ancillary staff were now all on contracts which were renewable on a real value-for-money basis.

"The private sector hires on a real value and performance basis – why not consultants? The only thing they have to fear is the loss of the least competent, who irritate the good as much as they damage the service," she said.

"It is not for district health authorities to enter the field of clinical judgments, but they should be determined to provide the best service to the consumer, and that means assessing the performance of each and every member of staff."

Health authority leaders at the conference called for an increase in funding of 2.5 per cent above current levels to allow health authorities to reduce waiting lists, meet patient needs and replace equipment and buildings.

The conference expressed concern at the "continuing under funding of the NHS and at the increasing difficulties caused by the accumulating consequences of such practices over a number of years." Delegates warned that there was little scope left for saving money through efficiency improvements in ways that did not damage services to patients.

Poll tax 'will double present cost of local tax collection'

BY JOHN HUNT

THE COST of collecting the community charge, or poll tax, will be double that of the old system of local authority rates, according to a report commissioned by the Government from accountants Price Waterhouse.

As the report was published last night, the Government was taking comfort from the fact that the cost of collecting the charge from each person is likely to be about the same as from each individual householder liable to pay rates, or property taxes, at present.

The total bill will, however, be higher because twice as many people will be liable to pay the community charge as now pay rates. As a result, the report calculates the cost of collecting the community charge in 1990 at between £379m and £435m, compared with the present £200m to collect rates.

The report forecasts that 14,315 extra permanent staff will be required for the collection of the charge – more than doubling the present figure. An additional 856 will also be needed to deal with rebates.

Mr Nicholas Ridley, the Environment Secretary, indicated that the Government will be prepared to meet some of this extra cost by increases in the central government subsidy to local authorities and in its capital allocations.

The Government was also emphasising a separate study of its own, showing that many local authorities have now scaled down the high amounts they were predicting they would have to levy under the community charge. This study also claims that 60 per cent of business premises will benefit from the proposed uniform business rate to be introduced at the same time.

The Price Waterhouse report was immediately used by Mr Jeff Rooker, the opposition Labour Party's housing spokesman, to attack the Government. He said it showed that the charge would be more expensive to collect than income tax, corporation tax, oil tax or value added tax.

Mr Ridley, however, maintained that it compared favourably with the cost of collecting rates.

The report also estimates that the expenditure needed next year in preparation for the new charge will be higher than the Government's initial estimate.

The Government put this cost at between £70m and £90m. Price Waterhouse suggest it could be around £122m. However, the report notes that improved productivity by local authorities could reduce this figure to £90m.

Mr Ridley seized on this last figure as an indication that the setting-up cost need not be much different from the Government's original forecast.

The report found big differences in the efficiency of local authorities. If the best ones were emulated then the total cost of collecting the charge could be reduced by 13 per cent to 15 per cent. This would bring the cost of collecting the community charge down to their lower suggested figure of £379.

Mr Ridley also produced figures of the levels of community charge local authorities might set based on their current budgets. Compared with similar figures last year, many of the highest projected community charges would be substantially reduced, largely due to the Government action to restrict the level of rates paid in the highest spending London authorities.

On the uniform business rate, he said that the north and the inner cities would particularly benefit from the projection that 60 per cent of non-domestic premises would be better off.

MANAGEMENT

LAST MONTH Sir Owen Green described moves to encourage the appointment of independent directors to British boards as "a fashion which is not going to get anybody anywhere."

In an interview on this page (May 11), Sir Owen, chairman of the industrial conglomerate BTR, said that non-executive directors with no experience of a particular company did not have enough information to make a real contribution.

Other senior managers argue, however, that this view is based on a misunderstanding of the true role of non-executive directors.

Allen Sheppard, chairman of Grand Metropolitan, the brewing, hotel and foods group, saya that non-executive directors do not need a detailed knowledge of the business. Their role is to ask the right questions rather than to know all the answers.

Grand Metropolitan's non-executive directors include Richard Giordano, chairman of BOC, Sir Colin Marshall, chief executive of British Airways, and Sir John Harvey-Jones, former chairman of Britain's biggest chemicals group ICI.

"We don't expect our non-executive directors to run the business," Sheppard says. "We don't expect them to be experts on the brewing industry or whatever. Their most valuable contribution has to do with strategy: does what we (tha executive directors) say abont the future sound believable? It's very helpful for them to ask the basic questions of 'what happens if?'"

Allen Sheppard (left), Sir John Harvey-Jones and Ian MacLaurin: in favour of non-executives, but recognising the need to manage their relationship with them carefully

More a question of 'what happens if?'

Michael Skapinker finds supporters of non-executive directors look for an ability to probe rather than answer

Ian MacLaurin, chairman of the Tesco supermarket group, adds that, in addition to asking questions, non-executive directors have another crucial role to play: telling chief executives when it is time to step down.

This is an aspect of the non-executive director's work that MacLaurin is well-qualified to talk about. As a member of the board of Guinness, he was one of a group of non-executive directors who, when the group found itself plunged into scandal last year, decided thet it was time for Ernest Saunders, its chairman and chief executive, to go.

Sceptics point out that Guinness had non-executive directors before MacLaurin and four others joined its board in 1986. This had not, however, prevented the group from going down its damaging route.

MacLaurin concedes that non-executive directors are not a panacea. Whether a chairman or chief execntive is prepared to look for non-executives who will be prepared to blow the whistle on them "depends on how confident yon are in your own abilities."

MacLaurin, along with other senior managers, says that if chief executives are to get the most out of their non-executive directors they need to manage the relationship with them carefully.

"It's both an art and a science," says John Scott-Oldfield of the Corporate Consulting Gronp, which has helped Grand Metropolitan find its non-executive directors. "The contribution of non-executive directors is only as good as the chairman permits."

Those who support the appointment of non-execntive directors say managing them properly bagins with their recruitment. Harvey-Jones says he believes in using headhunters as well as his own contacts to find non-executive directors.

Once the headhunter comes up with a possible name, "the very first thing you do is talk to a mutual friend who knows you both." Apart from the issue of whether the potential non-executive director has the right expertise, "the chemistry between you is very important."

The second step, Harvey-Jones says, is to "meet him on a basis which involves no commitment from either of you." It is important to ask youself whether the potential non-execntive is the sort of person you could get on with. "Yon're looking for red lights the whole time," he says.

Should companies attempt to recruit non-executives from countries or sectors that are important to the business? Harvey-Jones believes it is valuable to look for non-executive directors "who give you a chance to fill gaps in your board that are difficult to fill from in-house. You might want an American who had knowledge of the electronics industry."

He warns, however, that it is more important to find a person who can contribute than someone who happens to come from a particular part of the world. "It's not like stamp-collecting," he says.

In the past, companies tended to look for well-known names to serve on their boards, "adding lustre to the cluster", in Harvey-Jones's words. While most senior executives welcome the fact that more companies now look for ability rather than social status, Harvey-Jones warns that "yon don't want to give the wrong message about your values." A company with a sober image might not want to appoint a non-executive director renowned for his high living.

MacLaurin says that companies sbould not restrict themselves to chairmen or chief execntives in their searcb for non-executive directors. Many companies would welcome invitations for some of their other directors to serve as non-executiva directors on other boards because of the experience and exposure that it would give them.

As to tha balance between executive and non-execntive directors, MacLaurin believes that the executives should be in the majority. It is a view shared by Shappard, even thongh in Grand Metropolitan's case tha majority is a small one of five to four.

How much time will a non-executive director need to devote to the job? Harvey-Jones says that he or she should take the number of days that will have to be spent at board meetings and double it. Time has to be set aside for reading and getting to know the company.

Harvey-Jones says he is in favour of non-executive directors being appointed for a specific term, but adds that this should not be too short.

"I personally think five to seven years," he says. "It takes a non-executive a year to gain enough credibility and you need to have another four or five years to become effective. I think three years is too short. You do become undeniably more effective the longer you're there.

"Too many non-executive directors are appointed without a term at all. Then you have a horrible problem of having to have a nasty discussion and of the (non-executive director) having to leave with a sour taste."

Once the non-executive director is appointed, it is essential, Harvey-Jones says, that he or she is given a chance to learn something about the company. "You must give them an introduction into the business," he says. "You heve to tailor the way you do it to their needs." At ICI, he says, "we produced books about the business, we encourage visits and teach-ins. You don't just get a guy and expect him to know about the business."

Allen Sheppard at Grand Metropolitan says be encourages group non-executive directors to get around and meet members of subsidiary boards as a way of learning about the different businesses.

How much information to give non-executive directors during the year is another difficult issue, because of the tendency to overload them. MacLaurin says he began by sending his own non-executive directors more information than they needed and then asked them to tell him which papers they found useful.

At Grand Metropolitan, non-executives are sent e monthly package of results from tha group's divisions, along with comments from divisional chief executives. Four times a year they are sent divisional forecasts. They also receive a summary of an annual plan for each division.

"That sounds like a hnge amount of data," Sheppard says. "But we try to give them high quality stuff and cut down on the bumf."

Harvey-Jones says that "the rule of thumb is to make sure that they are not bombarded with paper. I like a one-page synopsis of a problem and then appendices that go into whatever detail is needed. I also like a lot of oral and visual presentations. I far prefer overheads, slides and that sort of thing."

The key to successful management of non-executives "is really a willingness to be open with them," Sheppard says. "I don't regard them as a collective group. I regard them as individuals. I feel quite secure with them."

As chairman he has to accept, he says, that "if I screwed it up or ran away with the petty cash they would remove me from office."

Audit committees

A study in effectiveness

Michael Skapinker on a report by accountants Coopers and Lybrand

AUDIT COMMITTEES undermine the authority of the board. They meddle in operational matters. They act as a barrier between the auditors and the main board. And, in any event, they have no teeth.

These are just some of the criticisms levelled against audit committees. Yet when a code of practice on non-executive directors was published last year, with the backing of the Bank of England, the Stock Exchange and the Confederation of British Industry, the establishment of audit committees by companies was one of its strongest recommendations.

The code, drawn up by Pro Ned (Promotion of Non-Executive Directors) said the committees should consider the scope of the audit,the auditors' remuneration and whether financial control systems were adequate.

In a report published yesterday, accountants Coopers and Lybrand mention the objections to audit committees, look at how widespread audit committees actually are and suggest ways in which they can be made to operate more effectively.

In order to evaluate the role of audit committees, Coopers asked their audit partners to complete questionnaires on all their listed company clients which had such committees. Where tha clients did not have audit committees, the partners were asked whether they had ever been considered and to give their views on why they had not been set up.

The survey found that 42 per cent of the companies had audit committees. Of those companies without them, some thought they were unnecessary because they already had a strong non-executive presence on their board. Other companies, on the other hand, were dominated by executive managers who were hostile to the whole idea of outside directors.

Where audit committees did exist, they were usually made up antirely of non-executive directors. Executive managers, particularly the finance director, did, however, usually attend meetings. Where executives were members, the finance director was always on the committee, as was, in most cases, the chief executive. The committee was usually chaired by a senior non-executive director.

Nearly all the committees surveyed reviewed the published annual report and nearly all reviewed reports received on internal accounting controls. About half reviewed preliminary announcements and interim statements. About half also looked at management information and operational controls. Only a minority reviewed matters of strategy or management structure.

Based on their experience of audit committees, Coopers and Lybrand make several suggestions on how they can be made to operate more effectively.

Their report says that membership of audit committees should be confined to non-executive directors. Certain executive directors, particularly the finance director, will, however, often need to attend meetings to brief the committee.

The Coopers report says that audit committees should not be viewed, either constitutionally or in practice, as supervisory bodies to tha board. Their terms of reference should make it clear that they are committees of the board, which do not have responsibility for reviewing executive decisions or for monitoring the efficiency of management.

'audit committees should not be viewed . . .as supervisory bodies to the board'

The existence of an audit committee, the report says, should not prevent the auditors having direct access to the full board. Indeed, it should be the norm for the auditors to attend one full board meeting a year.

Coopers says that the company's internal auditors should be able to communicate directly with the audit committee. The report adds that "internal audit can provide a useful fact-finding mechanism for the audit committee in areas where the committee itself could not reasonably carry out such fact-finding work.

"To assist audit committees in improving their effectiveness, we believe that it would be helpful for them to have the power to delegate projects to internal auditors, who would report back to the audit committee." It adds, however, that the operational direction of internal auditors should be a function of the board.

The report recommends that audit committee minutes, or a summary of them, should be submitted to the board. The committee should also consider submitting an annual report to the board.

On accounting policy, the report says that it is common for audit committees to review changes in such policies when these are proposed by management or auditors. It says that there is little evidence, however, that audit committees play a part in identifying those accounting policies that require revision.

"We believe this to be an area where audit committees can make a useful contribution and play a more proactive role," the report says.

It adds that audit committees should consider extending their review from the financial statements to the entire annual report, and particularly to the chairman's statement. Where they do not already do so, it suggests that they also look at interim financial statements and preliminary announcements before they are issued.

Coopers and Lybrand also examine the role played by audit committees during takeovers. They say that, in their experience, only about 15 per cent of audit committees examine circulars issued at the time of takeovers. Many of the remaining companies had not been involved in contentious bids, but the report suggests that audit committees could play a more active role when bids do occur.

"Whilst it is understood that all members of the board have a responsibility for information issued in connection with such a takeover, we believe that audit committees can play a useful oversight role in the highly charged atmosphere of a takeover bid, especially in the examination of profit forecasts and any proposed changes in accounting policy."

Apart from its financial oversight role, the report says that audit committees should attempt to ensure that the board is receiving adequate and reliable information on all aspects of the business.

"The information we have in mind," the report says, "includes that necessary to monitor policy, and compliance therewith, on foreign currency exposure and computer security, to take just two examples."

Audit Committees: The Next Steps. Coopers and Lybrand, Plumtree Court, London EC4A 4HT. £25.

Crunching the numbers on VAT

By Paul Cheeseright

THE TROUBLE with taxes is that sometime, somewhere there will be someone who pays. The property and construction industries, now being pulled into the net of value added tax, will be able to pass most of their new liabilities on so that they are lost among the great mass of consumers. But not all of them.

This week there is a great deal of brow furrowing and number crunching as property people work out the effects of the Government's immediate response to this week's European Court decision on VAT.

The response involves the imposition of 15 per cent VAT on constructinn, new non-domestic buildings and building land from April 1989. It gives landlords the option to charge VAT on rents for both new and old buildings. Developers, in other words, can if they wish pass on the VAT obligation.

The new tax system has not yet been settled. Indeed, even now the Government is circulating a consultation paper seeking thoughts about how the new regime will work. One of the key things this consultation will have to address is the definition of building land: the value of a site is the starting point for all development appraisals. Definition is crucial for mixed developments because residential building land is not subject to VAT. It is crucial especially for areas where land is expensive.

"It affects the City of London enormously," nnted Christopher Hedley of Hillier Parker, chartered surveyors, "with land such a large element of the capital value of a property."

Tha VAT process starts with the land. Developers pay VAT on the land they buy. They pay VAT on the professional services they buy in. They pay VAT to their contractor. To get it all back they charge VAT nn the ultimate sale of the building (or, if they retain it, they can opt to charge VAT on the rents).

On that basis, the ultimate financial effect is neutral. But what the developer does have is the extra carrying charge of the VAT inserted into the development process. The implications will vary from company to company. "Some people will be rewriting their software programs in a hurry," says Paul Orchard Lisle of Healey and Baker, chartered surveyors.

For the largest companies it will be largely a matter of bookkeeping. "Whatever happens there is going to be a cash flow effect of some, but not disastrous, magnitude," says Donald McKeith, the Land Securities finance director.

Allan Campbell Fraser of DCI, the privately owned – and much smaller – Glasgow group, agrees that VAT is not a big penalty on developers. "Any developer worth his salt should take it in his stride. There's no point in saying it's not going to cost something but you'll get it back in a different direction."

Many companies, as Mark Taylor of John Laing Developments notes, have a monthly accounting system with Customs and Excise for VAT, under whcih VAT liabilities and recoveries are netted off against each other.

The new VAT regime could cause more difficulties in the ultimate sale of the property. This issue stems from the difference between those who are in the VAT net and those who are not. If a sale is made to a company in the net – as most are – then there is no problem .

But banks, pension funds, insurance companies, some otherfinancial service companies, and edncational and charitahle institutions do not charge VAT on what they sell. Nor can they claim back the VAT on what they buy.

Here is the rub. The insurance companies and pension funds are big buyers of property. And they and the banks and other financial service companies are tenants of large amounts of space.

The financial institutions have been returning to the property market after a time in which they have stayed away; but with the imposition of VAT, such investments are going to be more expensive from April 1 1989. "Our purchases have got to allow for that. We are interested in net yield," says Ian Cockburn, investment manager of Electricity Supply Nnminees. The implication here is that if an investing institution wants its accustomed yields then something has to give – the developer's profit margin or the land price.

The effect would be marginal in a strong market, Mr Cockburn adds. But in the City of London market at least, it is probable that the addition of the new charge, taking effect as new rating assessments come in and as the supply-demand balance tilts towards supply, could be a real dampener.

At the same landlords will have some tricky choices to make in their approach to property leasing in centres where the financial sector is tha market leader – not only the City but Glasgow, Manchester, Bristol and Leeds as well. They have the option to charge VAT, but could face resistance from financial groups which do not have the ability to reclaim it. This would push the VAT charge back on to the developer or landlord.

In the short term, much will depend on the state of the market. If a financial institution wants space so badly that it will accept the marginal extra cost of VAT on rent, then the property owner has no problems. But if there is plenty of space becoming available in, say, the City, then the landlord may be forced to accept the VAT charges incurred in development to secure a tenant and not pass them on.

There are, though, longer term implications for the landlord in the decision to place VAT on rents. Once a landlord elects to do that, says Christopher Cox, a property lawyer at Nabarro Nathanson, "it has got to go on as long as he hold the building, regardless of the tenant. It is a once-and-for-all decision" – and not a very popular one. Landlords generally would like to take the option not on a building by building basis but on a lease by lease basis.

This choice is not just for new buildings. As Philip Burroughs, a tax lawyer at Lawrence Graham, ohserves, the Government has taken the opportunity of the European Court decision to bring existing buildings and their leases into the new VAT regime.

None the less, "a lot of attention will now focus on whether people in this transitional period can sidestep the new rules," says Mr Cox. It is likely that there will be a rush to sign up for or complete developments before the new tax regime comes into play. This will give an extra push to rising costs. "Architects and builders are under pressure for staff – the extra squeeze will place an extra burden on them," says John Gordon of Dron and Wright, chartered surveyors.

Fears for inner city developments

CONCERN is spreading that the imposition of VAT could hinder the programme for inner city regeneration. Industry leaders have written to Mrs Thatcher, the Prime Minister, about it. Mr John Heddle, the Conservative MP for Mid Staffs, who follows property industry concerns, is writing to Mr Nigel Lawson, the Chancellor.

The difficulty focuses on the definition of building land for non-domestic use, the sale of which will attract VAT. The fear comes back to mixed developments, where, in the inner cities, the commercial element effectively pays for the residential element. If the commercial element becomes more expensive this might deter investment in what are frequently risky projects.

At the same time, John Trustram Eve of Grimley JR Eve, chartered surveyors, has noted that developments in inner cities will be less likely if property companies cannot pass on VAT to their tenants. Many tenants of small premises would have too small a turnover to be in the VAT net.

And John Gordon of Dron and Wright, chartered surveyors, suggested that smaller investment funds could be inclined to hold back from putting money into inner cities if the risks are seen as rising.

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FT LAW REPORTS

No Mareva for EC assets

DERBY & CO LTD AND OTHERS V WELDON AND OTHERS
Chancery Division
(Mr Justice Mervyn Davies):
June 20 1988

THE COURT may freeze the UK assets of a defendant pending judgment if there is a good arguable case against him and a danger that he may dispose of his assets before judgment; but the order will not extend to foreign or EC assets in the absence of exceptional circumstances, if the risk of dissipation is outweighed by the possibility of oppression to the defendant combined with an assumption that he is honest.

Mr Justice Mervyn Davies so held when refusing an application by Derby & Co Ltd and six other plaintiffs, all members of the Salomon group of companies, for an order restraining Mr Anthony Henry David Weldon and Mr Ian Jay, first and second defendants to the action, from dealing with their assets outside the jurisdiction pending judgment.

HIS LORDSHIP said that on June 25 1987 a writ was issued by seven plaintiffs, all companies in the Salomon group, against Mr Weldon, Mr Jay and other defendants. Mr Weldon and Mr Jay were directors of one of the companies in the group and were associated with some of the others in various ways.

The writ claimed damages from Mr Weldon and Mr Jay under several heads, such as breach of contract, negligence, breach of fiduciary duty, deceit and conspiracy to defraud.

The plaintiffs now sought an order to freeze the world-wide or EC assets of Mr Weldon and Mr Jay over £25m, with disclosure of particulars of bank accounts. The evidence in support of the motion was extensive.

For Mareva relief the plaintiffs must show that they had a "good arguable case" (see *The Niedersachsen [1984] 2 Lloyd's Rep 604,605*); and that there was a danger that the defendants might dispose of their assets before judgment.

The claims arose out of the activities of Mr Weldon and Mr Jay between February 1981 and June 1984. For much of that time they were directors and conducted the executive management of Cocoa Merchants Ltd (CML), the main plaintiff.

CML was an English company based in London trading in commodities, principally cocoa. The plaintiffs said that Mr Weldon and Mr Jay caused CML, between June 1981 and February 1984, to suffer losses of £35m in that unauthorised advances of money and credit were made, particularly to the Allied group of companies in the Far East.

Exhaustive inquiries were made by the plaintiffs into the reasons for their loss following the Allied collapse in February 1984. They concluded that Mr Weldon and Mr Jay had, in 1981-1984, acted in extreme bad faith towards the plaintiffs. Their complaints were that Mr Weldon and Mr Jay were content to allow improper credit to Allied; and, through the medium of companies in which they had influence or interest, had engaged in transactions incompatible with their fiduciary duties to the plaintiffs.

All suggestions of fraud were hotly contested. Also, save for admitting trivial defaults, the evidence of Mr Weldon and Mr Jay was that they had in no way been in breach of their duties in the way of contract or good faith.

The court could not express any view as to the final outcome of the action. But from the numerous documents to which its attention had been directed, it had no hesitation in saying that, for Mareva purposes, the plaintiffs had put forward a "good arguable case".

The next step was to consider whether there was a danger that Mr Weldon and Mr Jay might dispose of their assets before judgment.

They were British subjects. Mr Jay was resident in England, and Mr Weldon was probably resident in England. On the other hand, both were very familiar with the movement of funds abroad. Both were apparently of good character, but that was not to say that no order should be made.

Letters sent by them were said to have been inaccurate, suppressive of information, or untruthful. The court was referred to 14 instances of what were said to be commercial malpractices. There were serious allegations about foreign exchange transactions which appeared to call for investigation. There was a whole catalogue of overseas companies with which Mr Weldon and Mr Jay had been associated.

In the light of those matters the refusal of a Mareva injunction would involve a real risk that a judgment in favour of the plaintiffs would remain unsatisfied. There were grounds for supposing that Mr Weldon and Mr Jay might have acted dishonestly, coupled with the fact that they had the ability to lock away assets in inaccessible overseas companies.

The ultimate test was whether it appeared to the court to be just and convenient to grant an injunction.

There was no doubt that an order should be made, at any rate with regard to assets within the jurisdiction. Also, Mr Weldon and Mr Jay must be ordered to disclose on affidavit their assets within the jurisdiction. It was just and convenient to order disclosure. The Mareva order on its own might avail the plaintiffs nothing. They knew nothing of the assets, save that it was admitted that there were some in England. Those could well be transferred abroad unknown to the plaintiffs.

The plaintiffs sought to restrain Mr Weldon and Mr Jay from disposing of their assets world-wide, with world-wide disclosure.

In *Ashtiani [1986]3 WLR 647* the Court of Appeal considered whether Mareva orders might affect foreign assets and whether disclosure of foreign assets might be ordered as ancillary to a Mareva.

While the practice had been to limit a Mareva order to assets within the jurisdiction, both Lord Justice Dillon and Lord Justice Neill in *Ashtiani* appeared to regard the making of an order affecting assets overseas as being within the court's jurisdiction.

The following considerations were material: (i) there was a high risk that assets in the UK or overseas would be unavailable for execution; (ii) Mr Weldon and Mr Jay were associated with many foreign companies about which it was virtually impossible to obtain information; (iii) the assets were likely to be liquid. Mr Weldon and Mr Jay were well used to moving funds world-wide; (iv) the plaintiffs ought not to have to run the risk that assets would be spirited away so as to render any future judgment useless; (v) the risk would be reduced if not eliminated by a Mareva order affecting assets overseas, whereas an order affecting only UK assets might be virtually useless; (vi) Mr Weldon and Mr Jay had not sought to help themselves by disclosing any details of assets; (vii) the first of the four reasons given by Lord Justice Dillon in *Ashtiani* that "it could very well be oppressive to the defendant that . . . his assets everywhere should be frozen . . ." could be lessened by provisions in the order; (viii) the oppression would still be severe because Mr Weldon and Mr Jay, while preparing for trial in England might at the same time find themselves engaged in courts overseas in applications of a Mareva nature; (ix) the second reason, the difficulties of controlling or policing enforcement in other jurisdictions, was less, because Mr Weldon and Mr Jay claimed to be resident in England; (x) it would be false in the present circumstances to allow them to plead the third reason, that their privacy ought not to be invaded; (xi) the fourth reason was that that a disclosure order might lead the plaintiff obtaining security in some foreign jurisdiction; (xii) no dishonesty was yet proved and might never be proved – the court must assume that the respondents were honest.

Reviewing all those considerations, (vii), (xi) and (xii) were of such strength as to outweigh all others.

It followed that there was no order for any world-wide Mareva or disclosure (see *Ashtiani*).

It was argued that since an English judgment was now readily recognised in the EC countries (see the Civil Jurisdiction and Judgments Act 1982), it was reasonable when making an *inter partes* Mareva order not to confine it to England but rather, where there was a Continental element, to extend it to EC assets.

The argument was not accepted. It went against the established practice which, as *Ashtiani* showed, was to confine a Mareva order to English assets, save in exceptional circumstances. There were no exceptional circumstances that justified a world-wide or an EC Mareva. The considerations that weighed against a world-wide Mareva operated also against an EC Mareva.

Mr Lyndon-Stanford contended that apart from the Mareva jurisdiction the court had jurisdiction to preserve until trial any proprietary interest that the plaintiffs had in assets now in the hands of Mr Weldon and Mr Jay, on the ground that they were held on trust.

On the evidence Mr Weldon and Mr Jay were not trustees of any fund or assets of which the plaintiffs were beneficiaries. Sufficient proprietary interest was not made out.

For the plaintiffs: Michael Lyndon-Stanford QC, Charles Purle and Stephen Smith (Lovell White & Durrant)
For Mr Weldon and Mr Jay: Philip Heslop QC, John Brisby and Robert Miles (Hopkins & Wood)

Rachel Davies
Barrister

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CORRECTION
In *River Rima, FT June 22*, the appellant was Tiphook Container Rental Co, and the respondent was Nigerian National Shipping Line Ltd – not the converse as stated in the second paragraph.

ARTS

Arts Week

F	S	Su	M	Tu	W	Th
24	25	26	27	28	29	30

OPERA AND BALLET

LONDON

Royal Opera, Covent Garden. The ancient production of Elektra is revived a final time to introduce to London Gwyneth Jones (in the title role), Helga Dernesch, Ruth Falcon, and Willard White. Gerd Albrecht conducts. The revival of the Elijah Moshinsky production of Lohengrin intended for Placido Domingo returns without him. Eberhard Buchner, Cheryl Studer and Gabriele Schnaut take the leads, and Jeffrey Tate conducts. Moshinsky's stark Verdi Macbeth returns with the original baritone, Renato Bruson, in the title role, Elizabeth Connell as Lady Macbeth, and Edward Downes as conductor – all in superb form. (240 1066)

English National Opera, Coliseum. Final two performances this season of Janacek's Cunning Little Vixen, with Anne Dawson and Norman Bailey as vixen and forester, and Mark Elder conducting. Also: Fidelio, with Kathryn Harries, Graeme Matheson-Bruce, Neil Howlett, and Kees Bakels as conductor. (836 3161).

PARIS

Cologne Opera (Théâtre des Champs Elysées). La Gazza Ladra conducted by Iwan Fischer is a vivacious and colourful production which brings to life Rossini's mixture of comedy and pathos. The opera semi-seria is co-produced by the Paris Opera and the Théâtre des Champs Elysées (47.20.36.37).

Paris Opera (Palais Garnier). La Celestine. A 15th century Spanish tragi-comedy is the basis of Maurice Ohana's modern opera about a famous procuress. Alternates with Norma conducted by Maximiano Valdes. Pier Luigi's production holds brilliantly the strands of the romantic tragedy. Palais Garnier (47.42.57.50).

NEW YORK

Lincoln Center Opera House. Paris Opera Ballet dancing American premières of works by Robert Wilson (his first ballet), Magny Martin and William Forsythe in a three-week season that features The Nutcracker and Rudolf Nureyev's refashioned Swan Lake. Ends July 9. (362 6000).

WEST GERMANY

Berlin, Deutsche Oper. Carmen returns with Margarita Zimmerman in the title role, Ermanno Mauro and George Fortune. Faust has fine interpretations by Nelly Miricioiu, Kaja Borris and Robert Hale. Götterdämmerung has a strong cast led by Ute Vinzing, and is conducted by Heinrich Hollreiser. Götz Friedrich's production of Die Hochzeit des Figaro rounds off the week. (34381).

Hamburg, Staatsoper. Faust stars Alberto Cupido, Ana Pusar, Simon Estes and Gino Quilico. The Magic Flute features Helen Donath, Kurt Moll and Franz Grundheber. Der Fliegende Hollander brings Hildegard Behrens, Jose van Dam and Peter Meven together. Le Nozze di Figaro is a co-production with the Salzburg Mozarteum. (351151).

Cologne, Opera. Ariadne auf Naxos is a well done repertoire performance with Nadine Secunde, Daphne Evangelatos and Scott Reeve. Tannhäuser is steered to triumph by William Johns in the title role, Wolfgang Brendel (Wolfram) and Sharon Sweet (Elisabeth). Ein Sommernachtstraum was well received when it opened with Paul Esswood, Teresa Ringholz and Harald Stamm. Manon Lescaut has a cast led by Barbara Daniels as Manon. (20761).

Frankfurt, Opera. Der Wildschutz is revived with Josefine Engelskamp, Jerrold van der Schaaf and Elsie Maurer. Tosca is a wonderful Jean-Pierre Ponnelle production. (25621).

ITALY

Milan, Teatro Alla Scala. Rudolf Nureyev's production of Don Chisciotte with Anita Magyari and Gheorghe Iancu, conducted by Michel Sasson. (80.91.26).

Naples, Teatro San Carlo. Kirov Ballet in Swan Lake. (7972412).

Trieste, Operetta Festival Il Pipistrello produced by Vito Molinari and conducted by Rudolf Bibl. (362.654/371.948).

Spoleto, Teatro Nuovo. Jenufa produced by Gunter Kramer and conducted by Spiros Argiris, with Ortrun Wenkel, William Pell, Katerina Ikonomo (Wed). (40265).

Spoleto, Teatro Romano. The David Parson Company, a lively and acrobatic US dance group led by an ex-pupil of Paul Taylor. (40265).

NETHERLANDS

Rotterdam, Rotterdamse Schouwburg. The National Ballet with Four Schumann Pieces (Van Manen/Schumann), and the world première of new ballets by Nils Christe and Edouard Lock (Mon, Tue).

Scheveningen, Circus Theatre. The Xian ballet company from China with The Soul of the Terracotta Army (Mon to Thur). (55.88.00).

Amsterdam, Stadsschouwburg. Lalala Human Steps with New Demons, choreographed by Edouard Lock to music by Olle Romo (Tue to Thur). (24 23 11).

MUSIC

LONDON

Scharoun Ensemble Berlin. Members of the Berlin Philharmonic Orchestra play Mozart and Schubert (Mon); Dvorak, Isang Yun and Beethoven, (Wed). Queen Elizabeth Hall. (928 3191)

London Choral Society and London Mozart Players, conducted by Jane Glover, play Stravinsky, Mozart and Bruckner. Barbican Hall (Mon). (638 8891).

Philharmonia Orchestra, conducted by Owain Arwel Hughes with Penelope Thwaites, piano. Mendelssohn, Mozart and Beethoven. Barbican Hall (Wed).

London Symphony Orchestra, conducted by Paul Freeman with Sequeira Costa, piano and James Campbell, clarinet. Tchaikovsky, Mozart, Rachmaninov and Enesco. Barbican Hall (Thur).

John McLaughlin Trio with Jeff Berlin, bass and Trilok Gurtu, percussion. Royal Festival Hall (Thur). (928 3191).

PARIS

Orchestre National de France, conducted by Rudolf Barshai, with the Radio France Choir. Beethoven (Tue). Théâtre des Champs Elysées. (47.20.36.37).

Ensemble Orchestral de Paris, conducted by Philippe Herreweghe, with the Choeur de la Chapelle Royale, Collegium Vocale de Gand. Haydn, Beethoven (Tue). Salle Pleyel (45.63.88.73).

Orchestre de Paris, conducted by Sir Georg Solti. Bartok, Beethoven (Wed, Thur). Salle Pleyel (45.63.07.96).

FLORENCE

Leipzig Gewandhaus Orchestra, conducted by Kurt Masur. Wagner, Schumann, Beethoven (Wed); Mendelssohn, Mozart and Brahms. Teatro Communale.

Spoleto. Chamber concerts every day of the Festival at the Teatro Caio Melisso (midday) and the Teatrino Delle Sei (at 6 pm). (40265).

NETHERLANDS

Amsterdam, Concertgebouw. Klaus Tennstedt conducting the Concertgebouw Orchestra, with Jakob Slagter, horn. Mozart, Mahler (Thur). (718 345).

Rotterdam, Doelen. The Rotterdam Youth Chamber Orchestra and the Greater Baltimore Youth Orchestra, conductors Josef Schebal and Christopher Wolfe, with Daniel Wayenberg, piano: Cimarosa, Mozart, Dvorak (Mon). Claus-Peter Flor conducting the Rotterdam Philharmonic Orchestra and Choir and vocalists: Mozart (Wed). (413 2490).

Utrecht, Vredenburg. Klaus Tennstedt conducting the Concertgebouw Orchestra, with Jakob Slagter, horn. Mozart, Mahler (Wed). (31 45 44).

NEW YORK

Orchestre Symphonique de Montréal, with Charles Dutoit conducting. Lutoslawski, Debussy, Prokofiev (Mon). Carnegie Hall (247 7800).

Bach Aria Festival and Institute. All Bach programme (Mon). Merkin Hall (362 8719).

Paragon Ragtime Orchestra. Special July 4th concert (Wed, 12.30, free). Juilliard Concerts at the IBM Garden Plaza, 56th & Madison.

Electric Phoenix, Neely Bruce, Luciano Berio, Trevor Wishart, Daryl Runswick, William Brooks (Wed). Merkin Hall (362 8719).

CHICAGO

Ravinia Festival. 53rd season of the summer home of the Chicago Orchestra opens with a jazz programme by Percy Jones and Earthworks (Tue). (728 4642).

EXHIBITIONS

LONDON

The Royal Academy. Cezanne – The Early Years 1859-72. A concentrated and illuminating study of the formative period of one of the greatest artists of the 19th century and one of the seminal figures of the modern movement. Although he came to greatness in his middle and later years, his early period, far from being inconsiderable as had been generally supposed, is now revealed in all its complexity and contradictory quality, with many great works to set among the youthful experiments and failures. Ends August 21.

The Royal Academy Summer Exhibition. The 220th Summer Exhibition in an unbroken sequence, and still the largest open exhibition of current painting, sculpture, prints and architecture in the world. With 1,261 exhibits chosen from a submission of something above 12,000, the show is a little smaller than usual, but as dense and bizarre as ever with many good things to be discovered, a gratifyingly large number supplied by the Academicians themselves. Daily until August 7.

Barbican Art Gallery. Art or Nature. A thorough survey of French photography in the 20th century, as part of the Images de France festival. The exhibition is especially strong in the attention it gives to the great individual photographers of the period, such Kertesz, Cartier-Bresson, Brassai and Atget. Ends July 17.

The Hayward Gallery. (Two exhibitions). Angry Penguins is a fascinating study of a group of young painters active in Melbourne during and just after the Second World War, Sydney Nolan, Arthur Boyd, John Perceval and Albert Tucker are all shown in impressive depth. Also: paintings from the Phillips Collection in Washington. An enthralling selection from one of the great private collections of modern times. Its scope extends from the 16th century to the present day, from El Greco, through Goya and Ingres to Francis Bacon; the collection is still not closed, but great strength is nevertheless in Impressionism and Post-Impressionism – Renoir and Cézanne, Braque and Picasso, Bonnard and Matisse. Both shows run until August 14.

British Museum. Ukiyoe – Images of Unknown Japan. This large exhibition of exquisite quality brings to us, through the work of the greatest masters of the wood-block print, the magical "Floating World" of pleasure and the senses that was the city of Edo (modern Tokyo) in the time of the Shoguns – from the 1600s until the 1860s, when Japan was closed to the outside world. Until August 14.

National Portrait Gallery. Paolozzi Portraits. A small but intriguing show of a body of recent work on a subject that has fascinated the Scottish sculptor, Eduardo Paolozzi, throughout his long international career. Of particular interest are the self-portraits, and also the several working studies of the architect, Richard Rogers. Until August 7.

NETHERLANDS

Amsterdam. Tropenmuseum. The arts and crafts of Indonesia, illustrated with more than 500 objects in bronze, bamboo, textiles and precious metals spanning 2000 years of cultural history. Ends August 21.

Amsterdam. Rijksmuseum (rear entrance). Divine Bronzes (some no more than 5cm high) illustrate the stylistic development of Indo-Javanese religious images from the 7th to the 16th centures and their role in transmitting culture from India and South-East Asia to Indonesia. Ends July 31.

PARIS

Galérie Schmit. French masters of the 19th and 20th century. The discreetly luxurious three storey gallery plays host, yet again, to an exhibition spanning a period rich with creativity and diversity. There is o darkly romantic portrait by Delacroix and an almost abstract Nicolas de Stael landscape. There is a rare Pissarro portrait of his son, Lucien, seated against a window and an early Picasso scene in a restaurant. A still life with a hyacinth and apples by Gaugin surprises by its tenderness, as does Corot's young Italian woman with a red shawl. 396 rue Saint-Honoré (42.60.36.36). Closed Sundays and lunchtimes. Ends July 16.

Pavillon Des Arts. The magnificence of silversmiths' work in India during the reign of the Moghuls testifies to their love of luxury. Everyday utensils like scissors, knives, betel nut and cosmetics boxes are chiselled and adorned with filigree open-work as richly as ceremonial objects and armour. 101 rue Rambuteau (42.33.82.50). Closed Mondays and holidays. Ends July 17.

Galérie Odermatt-Cazeau. Guillaumin's deep blue of the Mediterranean, framed by green pine trees and orange earth, entices the passer-by into an eclectic exhibition of some 50 works by the masters of the 19th and 20th century. A monumental 1937 wooden sculpture by Zadkin watches, totemlike, over a representatioo of a seated womao by Picasso, a pastel of two dancers by Dégas, and another by Gaughin, showing two boys fighting. Monet is there with a Giverny landscape, and an unusually structured Bonnard projects a colourful view of Saint-Tropez through a gap between two tall buildings. 85 bis rue Faubourg Saint-Honoré (42.66.92.58). Ends July 30.

Daniel Malingue Gallery. Baltasar Lobo's work is a hymn to the eternal woman. In perfect harmony with the material he uses, the Spanish sculptor celebrates with equal mastery the gracefully slender body of a young girl and the full-blown beauty of a mother playing with her child. The purity of line of the smooth bronze comes near to abstraction at times, yet the sensuous femininity is always there. 26 Avenue Matignon (42.66.60.33). Ends July 9.

Grand Palais. Le Japonisme. 400 exhibits bear witness to the enthusiasm which swept the Western art world for all things Japanese in the second half of the 19th century. Monet decorated his house – even his doors – in Giverny with Japanese prints and built a Japanese bridge in its gardens. Van Gogh collected cheap Japanese woodcuts and represented them in his paintings. Couturiers were inspired by Kimonos, and glass makers and porcelain decorators by Japanese motifs. Closed Tue (42.56.09.24). Eode August 15.

Chateau de Bagatelle. Count d'Artois' Folly, built in record time in the Bois de Boulogne in reply to a dare by Marie-Antoloette, his sister-in-law, has come to life in all its exquisite 18th century splendour thanks in a group of Paris antique dealers. For two weeks lyre-shaped chairs face preciously worked cabinets, and an ensemble of Sèvres porcelain adds the gilded bronze lustre of its settings to the strong colours of a Savonnerie carpet. From 2pm till 6pm. Ends July 3.

NEW YORK

American Craft Museum. An ambitious show that traces the history of the American architecture back in the turn of the century and emphasises the work of artists like Tiffany, Lawrie and Louise Nevelson who were commissioned to add art to the architecture. Ends Sept 4.

Pierpoot Morgan Library. Over 300 items from the life and art of Beatrix Potter show the evolution of the artist and her work. Included are the illustrated letter, discovered only mooths ago, in Noel Moore that became the basis of Peter Rabbit and the entire sequence of 22 watercolours from The Tailor of Gloucester, lent by the Tate Gallery. Ends Aug 21.

National Gallery (East Wing). To mark the 350th anniversary of the first Swedish colony in North America, the exhibition covers four Swedish monarchies in the 16th and 17th centuries and shows Sweden as a resplendent and aggressive world power through objects and 100 paintings on loan from the Royal Treasury, the National Museum and the royal collections. Ends Sept 5.

CHICAGO

Chicago, Art Institute. Photographs by Josef Sudek. Using his native Prague as the background, this avant-garde photographer, who died in 1976, captured the lyrical quality of the Czech people and the country'e beautiful landscapes. Ends Sept 5.

WASHINGTON

National Gallery. More than 60 masterworks, from a superb 16th-18th century collection of Munich's Alte Pinakothek, include paintings by Rubens, Rembrandt, Titian, El Greco and Van Dyck. Ends Sept 5.

ITALY

Venice, Palazzo Grassi. The Phoenicians. The fourth major exhibition at Fiat'e imposing art centre on the Grand Canal attemps in give e complete picture of this extraordinary people, who dominated trade in the Mediterranean for over 1,000 years before their capital, Carthage, was finally destroyed by the Romans in 146 BC. Organised by Professor Sabatino Moscati and sponsored by the Accademia dei Lincei in Rome, the exhibition has beeo given a highly theatrical presentation by the orchitect Gae Aulenti. Sarcophaghi project at odd angles from o pile of pink sand on the ground floor of the Palazzo; in an upstairs room, model ships stand immobile in a rippling artificial lake, and a huge polystyrene wave engulfs a Phoenician wreck. Not particularly legible graffiti run across the walls. Many of the 1,200 objects displayed (gold and silver jewellery, statues and reliefs in terracotta, bronze and ivory) are extraordinarily beautiful and the 750 page catalogue, published by Bompiani, is excellent. Uotil Nov 6.

Venice, Fondazione Cini (Isola di S. Giorgio). Paolo Veronese. An intelligently presented exhibition to mark the fourth centenary of Veronese's death, two-thirds of which is devoted to preparatory studies for his major works in Venice. The last few rooms contain 22 paintings, including several masterpieces lent by US and European Museums. Until July 10.

Rome, Museo Del Folklore (Piazza S. Egidio). Goethe in Italy, organised by the Goethe Museum in Dusseldorf and the Arbeitskreis Selbstandiger Kultur-Institute in Bonn, includes a mixed collection of objects connected with Goethe's two visits to Italy (1786-1788 and 1790) and gives a vivid idea of the essential equipment for a late 18th century traveller in southern Europe (a pair of pistols, tables of exchange rates, folding writing-desk, and maps of the scanty post-chaise routes, and of the wildness of the terrain covered). On show is a copy of his friend Tischbein's portrait, Goethe in the Roman Countryside, and eogravings, drawings and watercolours by Piranesi, Hackert, Kniep, Pinelli and Goethe. Ends July 3.

Rome, Palazzo Dei Conservatori. From Pisanello to the Birth of the Capitoline Museum, or classical art on the eve of the Renaissance. An exquisite exhibition of drawings, coins, illuminated manuscripts and sculptures Sixtus IV gave to Rome as the oucleus of the future Capitoline Museum. Ends July 24.

WEST GERMANY

Cologns, Romisch-Germanisches Museum. Caesar'a Glass. This exhibition is the most important display of Roman glass ever staged. It covers the period from Caesar to Justinian, from the first century BC to the 6th century AD. The 162 pieces are mainly goods from everyday life. The show is a joint project between the Corning Museum of glass, New York, the British Museum, London, aod the Romisch-Germanisches Museum in Cologne. The exhibition is sponsored by Olivetti and runs until August 28.

TOKYO

Tokyo National Museum of Modern Art, Takahashi. René Magritte. Magritte's paintings of dapper little men in dark suits and bowler hats and floating like clouds ehould appeal to all Japanese "salarymen" who dream of escape from the daily grind. Closed Mondays. Ends July 10.

VIENNA

Rathaus. Wien 1938. Vienna's city hall is commemorating the Anschluss, the German annexation of Austria in 1938, with a large and courageous exhibition which shows how Austrians reacted to Hitler's march into Vienna, and the eclipse and eventual destruction of the Jewish culture. Ends June 30.

THEATRE

LONDON

The Common Pursuit (Phoenix). Second London chooce for flawed Simoo Gray comedy about Cambridge graduates in love and publishing. Author directs good young cast of comedians including Rik Mayall and Stephen Fry. (836 2294, credit card bookings 240 9661).

Easy Virtue (Garrick). Transfer of King's Head revival of early Noel Coward, same period but lesser vintage than Hay Fever, but worth seeing. (379 6107).

South Pacific (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, with Gemma Craven failing to wash the baritonal Emile Belcourt out of her hair.

The Phantom of the Opera (Her Majesty'e). Spectacular, emotionally nourishing new musical by Andrew Lloyd Webber. (839 2244; credit cards 379 6131/240 7200).

Follies (Shaftesbury). Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. (379 5399).

Back with a Vengeance (Strand). Barry Humphries, indisputably the outstanding vaudevillian of the age, has extended his triumphant London season to July 9. Dame Edna Everage has now earned full immunity to good taste, while the bibulous diplomat Sir Les Patterson touches new heights of degradation. (836 2660/4143).

Hapgood (Aldwych). New Tom Stoppard mixes espionage, romance and higher physics in a splendidly taut and clever entertainment. Felicity Kendal is the eponymous intelligence agent, Roger Rees and Nigel Hawthorne in elegant support. Double meanings and double identities abound. (836 6404; credit cards 379 6233).

NEW YORK

Fences (46th Street). August Wilson hits a home-run with a powerful tale of an old baseball player raising o family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings. (221 1211).

Cats (Winter Garden). Still n sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically felina: (239 6262).

A Chorus Line (Shubert). The longest-running musical ever in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

Les Misérables (Broadway). Led by Colm Wilkinson, repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence in its original source. (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its US incarnation: the skaters do not have in go round the whole theatre but do get good exercise on the spruced-up stage with new bridges and American scenery in distract from the hackneyed pop music and trumped-up, silly plot. (586 6510).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in o stage full of characters. It has nevertheless proved to be a durable Broadway hit. (947 0033).

WASHINGTON

The Search for Signs of Intelligent Life in the Universe (Eisenhower). Lily Tomlin repeats her award winning solo performance of the crazy people who inhabit her funny and strange imagination. One major segment explores the women's movement over the past decade. Ends Aug 7. (254 3670).

CHICAGO

Pal Joey (Goodman). Set in Chicago in the 1940s, this Rodgers and Hart classic, directed by Robert Falls, follows in haunting melodies the escapades of a classic heel caught between the one who loves him and the rich lady he wants. Ends Aug 7. (443 3800).

TOKYO

The Maharabhata (Ginza Saison Theatre). The great Indian epic, dramatised by Jean-Claude Carrière and staged (in English) by Peter Brook and his international troupe of actors from Paris. In three parts, performed either on successive evenings or on a single day. Full of enthralling images of earth, fire and water, but not without its longuers, especially in the final part, which consists of a repetitive series of battle scenes. Ends July 27. (535 0555).

Hamlet (Ebisu Dai-2 Factory). This studio production by Japan's most innovative director, Yukio Ninagawa, makes use of two translations, one old and one new, but Ninagawa has left it up to his actors to decide which one to use – and when. The strong visual concept for this imaginative production derives from Japan's Doll Festival. Ends June 28.

AMSTERDAM

Stadsschouwburg. The English-Speaking Theatre of Amsterdam continues its 10th anniversary summer season with Beyond Silence, a multi-faceted exploration of the female imagination. (all week except Sun and Mon). (24 23 11).

Cinema/Nigel Andrews

At odds with the angels

Wings Of Desire (15) Lumiere, Gate Notting Hill
My Girlfriend's Boyfriend (PG) Renoir, Chelsea Cinema
Throw Momma From The Train (15) Odeon Leicester Square
Hidden City (15) Metro

Where would the cinema be without angels? They used to be a staple of Hollywood comedy, brought in whenever film-makers ran out of jokes inspired by this world and decided to import some from the next. But the danger of movies like *Here Comes Mr Jordan* or *I Married An Angel* — or more recently *Heaven Can Wait* — has been that they always end up more pie-eyed than piquant, stronger on whimsy than wit.

The angels in Wim Wenders's *Wings Of Desire* are more seriously intended but, alas, no less whimsy-prone. Wenders is proving the most resilient of the New German Cinema's one-time *wunderkinder*: Fassbinder being departed and Herzog being trapped in what seems an eternal cycle of Klaus-Kinski-in-the-tropics films. *Wings Of Desire* vibrates with visionary imagination as it careens over Berlin, giving us an angels'-eye-view of the divided city. The angels are Bruno Ganz and Otto Sander, wearing overcoats and wry, gentle smiles, and the city is divided by the frontiers of individual identity. Each man's thoughts are inaudible to his neighbour, but we and the angels tune in to them at will. We ride on tube-trains or prowl public libraries, as the babble of poetically scrambled thoughts is brought to us by screenwriters Wenders and Peter Handke. So far, so fascinating. Veteran French cameraman Henri Alekan (*La Belle Et La Bête*) films Berlin in a gritty, sepia glow, as of a city whose beauties have been born out of bomb blasts. And standing out in the multitudinous cast, veteran German actor Curt Bois (*Casablanca*) pads touchingly across the wastelands under the angels' guidance, searching for the ghosts of Berlin's once-glorious centre and unifying symbol, the Potsdamerplatz.

But for these true angels of the film, trying to harmonise its multiple parts, there are ersatz angels a-plenty to expose its fragmentedness. One is Peter Falk, guesting through a misconceived cameo as a Hollywood actor (and former angel) jetting into Berlin to make a film. The role, feebly written and imagined, seems like a hiccup from Wenders's bad old Americoholic days, when his movies had to be spiked with celebrity cameos from such as Sam Fuller and Nicholas Ray. Falk growls out his lines like a bemused Hollywood pro who's suddenly found himself on set in the twilight zone, with a script by Pirandello.

Ersatz angel two is Solveig Dommartin as a beautiful trapeze artist. It is she for whom the lovestruck Ganz decides to hang up his wings, descend to earth and become mortal. But when the trapeze lady herself comes down to earth, delivering in lifeless tones one of Handke's longer and more impenetrable speeches, we wonder if it was all worthwhile.

The film's chief enemies, though, are less its characters than its verbosity and fey humourlessness. Like Wenders's last collaboration with Handke, *Wrong Movement*, we feel we are drowning in words in a medium where the image should be ascendant. And arch in-jokes apart — the circus is named the "Circus Alekan," a group of German youths do a double-take at Falk and mutter "Ach! Columbo!" — the film is peculiarly Teutonic in its lack of humour. The tone of compassionate, lofty wryness has a cloying air of condescension.

Wenders's fascination with themes of freedom and self-discovery — which blew gusts of moral revelation and adventure through *Kings Of The Road* or *Paris, Texas* — has here tried to draw new energy from paradox. Could not an angel find freedom by surrendering his wings and choosing the chains of mortality? But while paradox can energise a poem, it is seldom a good pacemaker over the long distance of a movie. It can reduce human life, as here, to a nexus of cerebral ironies and conceits; and it can turn the filmgoer's expectation into a fall-guy for ever more winsome, predictable surprises.

★

Paradox is the flavour of the week. It infuses far more successfully Eric Rohmer's *My Girlfriend's Boyfriend*. Here we are in *la belle France* in the company of another Rohmerian group of lovestruck, moony, chattering youngstars. Boy-shy Blanche (Emmanuelle Chaulet) idolises handsome Alexandre (François-Eric Cendron) but finds herself thrown together with cheerful, windsurfing Fabien (Eric Viellard), the boyfriend of her own best friend Lea (Sophie Renoir), when Lea is away on vacation. Who will end up with whom? And when and how?

The paradox here is a time-honoured paradox of love: the "right" couple is often the wrong couple, and the "wrong" couple is often the right one. This may not seem like blinding wisdom from a film-maker who has spent most of his previous fifteen films telling us the same thing. But as the tale dances on, quicksilver of mood and unstoppably garrulous, its ring-a-ring-of-roses interplay of characters develops an enchanting momentum.

Unlike Wenders in *Wings Of Desire*, Rohmer does not grandstand from Cloud Nine but slyly commentates from the ground. His characters from their own earthly level. They are emotional flibbertigibbets. They wear carefree primary colours and they live in designer environments relished by Rohmer for their streamlined absurdity. This film's main setting is St Christophe, a gleaming neo-classical suburb on the edge of Paris, whose white squares, giant clocks and Greek colonnades seem to have been stolen from a Di Chirico painting. In this chic parody of eternity, Rohmer and his characters show us how funny, fallible and non-eternal human feelings are. When Lea, who by final reel has hooked up with Alexandre, proposes a six-month trial period of celibacy to test the durability of his feelings, he thinks about it a moment and then comes back: "How about six days?"

★

Throw Momma From The Train takes a wonderful knockabout idea — a spoof version of Hitchcock's *Strangers On A Train*, with Danny DeVito and Billy Crystal as the murder-swapping friends — and then spends 87 minutes failing to knock it about. Stu Silver's script gives us a blocked novelist (Crystal) whose ex-wife got rich by stealing his last book (murder motive one) and a dumpy pal and aspiring writer (DeVito) who hates his overbearing, live-in mother (murder motive two). What if DeVito kills Crystal's ex-wife and Crystal kills DeVito's Momma? Hey presto. Motives will disappear and the police will be flummoxed.

The murder plan is fine. It is the movie that is not. DeVito himself directs, and the strain tells in ill-paced scenes and attempts to goose the film up with showy camera angles. But once past the funny early scenes of a novelist's creative paralysis — "Man, you've been on 'The night was' since July" says Crystal's friend, seeing the lone three opening words of Chapter 1 still in the typewriter — the film sputters on without wit, timing or invention. Sole compensation is Anne Ramsey as the titular Momma. This fearlessly grotesque actress, with a face like a sack of potatoes, eyes like live coals and a voice like a railway loudspeaker (deafening, crackly and largely incomprehensible), is a comic find. Let us see her again, please, next time is a worthier film.

★

Miss Ramsey would certainly enliven *Hidden City*. A touch of lunatic comedy is needed in this portentous essay in Teach Yourself Paranoia, written and directed by Stephen Poliakoff. Charles Dance (uptight statistician) and Cassie Stuart (crusading punkette) set out to track down some nasty secrets about British wartime torture and surveillance. The secrets are on film and they are hidden in the shafts and tunnels of London's bureaucratic underworld: deep below Whitehall and points east and west.

Padding gamely along in their wake, the audience is led down one catacomb after another, each one suspiciously resembling a garden path paved with red herrings. The main plot device is "Here is the missing film, oh dear the film has gone," and then off we trudge to the next venue.

These mysterious mines stuffed with classified information do actually exist, we are told. But did ever a film based on truth seem so implausible? As in *Runners*, Poliakoff seems unable to parlay his subtle, alarmist talent as a TV and stage writer to the broader narrative demands of a feature film. The story stumps on without shape or momentum, and Dance and Stuart — he an expressionless prune, she a tiresome banshee — make the most uncharismatic double-act since Burke and Hare.

Wings of Desire: Bruno Ganz and Solveig Dommartin

Audi appointed to Netherlands Opera

Pierre Audi, the Artistic Director, and Founder, of the Almeida Theatre, Islington, has accepted the post of Artistic Director of the Netherlands Opera in Amsterdam from this autumn. He will continue to direct the artistic policy of the Almeida until the summer of 1989.

David et Jonathas/Barbican Hall

Max Loppert

The church music of Marc-Antoine Charpentier has long held its place among the most important of the 17th century. It has, however, taken the issue of two quite recent recordings — Erato's *David et Jonathas* and Harmonia Mundi's *Médée* — to alert the wider world to the existence, and the splendour, of his two surviving full-length operas; and with the knowledge has grown the awareness of how different, in substance if not necessarily in style, the history of the French aristocratic opera might have been if Lully, who founded the genre, had not used all his considerable political powers to prohibit the younger, and undoubtedly more richly talented, Charpentier from gaining a foothold in the opera world. The two extant Charpentier *tragédies en musique* come from the period after Lully's death; they build on the forms established by Lully to create lyric dramas elevated to genuine grandeur by their music.

Wednesday's concert performance of *David et Jonathas* by Les Arts Florissants under William Christie formed part of the "Images de France" series currently unfolding at the Barbican (this concert was sponsored by Eurotunnel). The "image de France" that it presented was austere, and at the same time impassioned and deeply stirring. If one is put in mind of Racine's *Esther* or *Athalie*, that is not too farfetched a comparison, since in like fashion *David et Jonathas* (1688) was written to be performed at a Paris Jesuit school in tandem with a Latin verse drama on the same subject (operatic involvement in the dramatic productions of the Collège Louis-le-Grand was already quite far advanced by this date).

The structure is five-act-plus-prelude, as developed by Lully in his court operas, but place and circumstance made possible for Charpentier a concentration on the drama that was entirely different from the Lullian norm — the prelude is not the usual ode of royal celebration but a plunge directly into the plot (Saul's visit to the Witch), and the ballet divertissements are missing (dances are used to close Act 4, adding to its martial climax). For at its core this is an intimate drama of character conflict, unfolded without pause or falter.

Though the language of the libretto may be stately, the dark, hate-filled agonies of Saul (bass), the jealous plotting of Joabel (tenor), and the loving tenderness of David (haute-contre) and Jonathan (treble) are bared with a magnificent confidence in the dramatic power of Charpentier's music to render vivid each tightening of the dramatic screw. It is in the long solo scenes of meditation, given to each of the main characters in turn, that Charpentier's flexibility, variety and richness of musical language are most evident in David's Act 1 scena, "Ciel! quel triste combat," the major-key closing paragraph is worthy of Gluck, and the emotional impact of the harmonic suspensions is worthy of Purcell. These are sanctified names to conjure with — and those of Handel and Monteverdi could be added to them — but here and elsewhere, and because of the accumulating intensity of the whole experience, their invocation is required and justified.

Les Arts Florissants, whose 1987 Paris production of Lully's *Atys* was one of the revelations of the decade, are worthy of such a work. They came to London having just given it in Paris: even in the Barbican, with acoustics that pose strange barriers of communication between musicians and audience, the played-in, lived-in quality of the performance was breathtaking (risky moments of ensemble between orchestra and chorus seemed part of the excitement). Style, sound, and dramatic meaning were unified. Declamation was keenly charged to both the dramatic impetus and the musical line — the fine young bass Jean-François Gardeil (Saul) may have allowed himself an occasional tonal unruliness, but his was the most completely realised dramatic figure on the platform.

Gérard Lesne's countertenor David and Monique Zanetti's soprano Jonathan were both exquisitely shaped and delivered; in other roles Jean-Paul Fouchécourt (Joabel), Bernard Deletré, and Charles Daniels were no less admirable. As I suggested earlier, expectations for this concert were high, but the event itself surpassed them: it will without doubt come to be remembered as one of the Very Best Things on the 1988 London musical calendar. Why in heavens' name was it not broadcast on Radio 3?

Boris Gudonov/Moscow

Ronald Holloway

In Moscow an invitation from Nikolai Gubenko, current artistic director of the Taganka Theatre, to a dress rehearsal for the revival of Yuri Lyubimov'a production of Pnshkin's historical drama *Boris Gudonov*, was accepted without hesitation.

The rehearsal ran for five gruelling hours throughout one of the hottest June days recorded in Moscow this century, yet despite the discomfort the actors and chorus responded with an overpowering engagement.

The Taganka ensemble, formed by Lyubimov himself nearly a quarter-century ago, has made theatrical history in Moscow with this revival.

Last April Gubenko met Lynbimov in Madrid and returned not only with his approval for the "second premiere," hut also with the 70-year-old director's commitment to open the rehearsals in person. His subsequent ten-day visit to the Taganka in May became a media event — to say nothing of the theatre's own clamouring for his permanent return.

Boris Gudonov was removed from the Taganka repertory by Party officials in 1982. A year later, Yuri Lyuhimov was in exile. Nikolai Gubenko, who played the title role in the original production, insists as the theatre's new artistic director (following the death of Anatoly Efros) that "he is only occupying a chair next to that of Lyubimov's;" thus this revival should parallel the original as closely as possible.

The rehearsal for *Boris Gudonov* was striking for its accented tempo and vigorous rhythm. Played on a barren stage with few props, the primary stylistic traits are its vitality and precision; its musical drive in word and gesture; its performers functioning as a unified chorus.

Indeed, what lingers on in the seuses afterwards is the all-embracing mnsical arrangement (Dmitri Pokrovsky) drawn from old Russian ballads and religious liturgy. The chorus, supportive of Gubenko's baritone presence commanding the stage, is particularly effective at the close during the tsar's ominously underscored death — and resurrectiou. Greek tragedy, Russian-style.

When *Boris Gudonov* goes on tour later this antumn, it is expected that Yuri Lyubimov will review his own *productio in obsentia* in October, when the ensemble stops in Greece.

In the meanwhile, he is considering a second return to Moscow for the Taganka's 25th anniversary next April 23rd, when a revival of his previously banned production (1970) of Boris Mozhayev's *Alive* is in the offing. And sometime in the future he hopes to begin a new production at the Taganka Theatre, *The Fate of Boris Pasternak*.

Façades/Lyric Studio

Martin Hoyle

Following the civilised gathering of literary luminaries, including Shaw, presided over by John Gielgud in the West End, we now have the Sitwells and D.H. Lawreuce sweltering in Hammersmith.

William Humble'a dramatised episodes in tha lives of the Renishaw renegades is certainly more theatrical than *The Best of Friends* was. As yet it fails to add up to a coherent and compact dramatic whole; bnt soma fine acting and the fascination of the tormented, eccentrically gallant central characters maka up for the ambling pace of Simon Callow's production, a lack of tension and a feeling of uncertainty as to where the play is going.

We meet Edith Sitwell on one of Bruno Santini'a aats of glittering grey as if — steps, statue, foliage — carved out of superior fossil fuel. Frances de la Tour gives na less the withdrawn, defensiva, deliberately *outré* aristocrat than a drawling modern wallflower.

In her forties, she is being painted by the Russian Pavlik Tchelitchew who worships her platonically ("Yon are not uggerly!") and perorates on the poetess's uniqueness in Garry Cooper's fruitiest all-purpose foreign accent ("Do yon hate being a genius — a parrot from the crowd?").

Edith reminisces; the Italian terrace is peopled by her memories: the dotty father, Sir George, inflicting his ngly duckling with gymnastics, scarf dancing and the poems of Mrs Hemans; the agonising humiliation of orthopaedic racks and framea for tha grotesque-looking girl; the unexpected sympathy of John Singer Sargent, whose limericks bring laughter to the sad Sitwall children as he paints them; the typically mad coming-out party (at Doncaster race-course); and the scandal of her mother's debts, blackmail and sensational court case.

Miss de la Tour is wonderfully moving as the plain Jane tall as a crane, aggressively red-haired and shapelessly dressed in Act 1, blossoming into black turban and those famous chunky jewels in Act 2. Her climactic meeting with D.H. Lawrence when he taunts her and urges her to find "a proper man" is aomewhat scuppered by Mr Cooper again, with a *Coronation Street* accent and the stocky rolling gait of a gorilla. Each dares the other towards a sexual encounter; she finally recoils, ultimately repelled by the "piggy things" of love.

Sheila Reid and Graham Crowden provide sterling support as the parents — he in particular represents hlandly ontrageous privilege at its looniest. Malcolm Sinclair's Osbert is a beautifully stylish vignette: vulnerability, oddness and shy niceness blended with the faintest hint of a speech impediment. Tightened and tidied np, its even flow varied with the occasional climax, the play may yet prove a worthy frame for tha performances.

Frances de la Tour as Edith Sitwell

Ian Hobson/Wigmore Hall

Richard Fairman

This was the flrat of three recitals devoted to The London Piano School between 1760 and 1860. The rapid development of the piano in London around the turn of the 19th century brought with it a surge of music written for the instrument — enough to fill 20 volumes of a recent major retrospective publication, into which Ian Hobson has dipped to make up this series.

As so often in British musical history, the major figures tend to be visiting foreign composers rather than native ones. Tha short sonatas that we heard in this opening programme by John Burton (c1730-1785) and Thomas Busby (1755-1838), one still writing jigs and hornpipes, the other a rondo on rather vapid airs, suggested that the English keyboard style of the time has little to offer in comparison with the incoming continental fashions.

So it was wise of Hobson to devote this first chapter of the story largely to the Italian Clementi and the Bohemian-born Jan Ladislav Dussek, both of whom settled in London and did their best work here. Dussek's grand Op 44 Sonata, the "Farewell", seemed to me too overblown to justify its length, but the F Minor Sonata Op 13 No 6 by Clementi (a terse and aggressively original piece) was certainly well worth hearing.

For the pianist the problem is how to accommodate this music, writtan for the aarliast fortepianos, to the modern grand. The rapid scales of J C Bach and the early Clementi clearly ask for the brilliance of their original instruments; while if one believes the later pieces warrant a present-day piano, and the scale with which Hobson played them suggested that he did, then they would benefit from its full range of colours.

A feeling of compromise, undertaken for the best reasons but with rather unexciting results, may well be avoided in the other two recitals. Cramer, Wesley and Field follow on Sunday; and the series concludes with music hy Weber, Moscheles and Sterndale Bennett (a Sonata enticingly titled "Die Jungfrau von Orleans") next Wednesday.

Saleroom/Antony Thorncroft

Bonanza for bibliophiles

London is awash with the world's antiquarian book dealers this week, with fairs at full throttle in many hotels, from the Park Lane down. So the salerooms have heen husy selling manuscripts very successfully and yesterday Sotheby'a offered the private library of the celebrated dealer Philip Robinson, who with his brother Lionel pulled off the book trade'a coup of the century — the acquisition of the residne of the library of the great 19th century bibliophile, Sir Thomas Phillipps.

Almost three hundred lots from the first part of Philip Robinson's library, including many with the Phillipps mark, sold for £1,012,825 with 7 per cent unsold. The Strachey papers, the most important archive relating to the American War of Independence to appear on the market for years, sold for £176,000. Sir Henry Strachey was secretary to the Commission for restoring peace to America, and the papers give unrivalled insights into course of the War.

The London dealer Qnaritch paid £48,400 for a medical anthology of the late 13th century which is believed to have been used as a health handbook by the monks of Bury St Edmunds Abbey, and £27,500 for a copy signed by Rabelais of one of his source books for his Gargantua and Pantagruel. The London dealer Sam Fogg bought a history of Troy from the celebrated late 15th century library of Wolfgang von Furstenberg, in its original condition, for £35,200 .

The jewels for the collector aale at Sotheby's totalled £1,502,880 with 11.3 per cent unsold. The London dealer Graff, hought a diamond riviere for twice its estimate, at £126,500, and a single diamond stone, weighing 25.27 carats, for £55,100.

Christie'a held its major London summer sale of French furniture. The withdrawal of the top lot, a commode supplied to the Versailles salon of Madame dn Barry, took some of the gilt off the proceedings but two London dealers acting in concert, R.A.Lee and Partridge Fine Art, paid £242,000 for a Louis XV ebony, tortoiseshell, and marquetry cabinet on a stand, attrihuted to Pierre Gole. All told the auction made £1,730,465 with 20 per cent unsold.

A set of eight Directoire mahogany armchairs attributed to Georges Jacob, and made for Knowle in 1803, doubled their top estimate at £71,500 while a pair of Regency ormoln mounted Chinese famille verte porcelain vases and covers fetched £66,000. A Louis XVI ebony and amaranth bureau plat by Martin Carlin sold for £60,500.

A three bottle bottle of Chateau Lafite 1811, rebottled a few years ago, sold for £22,000 at Christie's to an English buyer. A single bottle of Chateau Y'Quem, of 1831, made £7,260 while an 1847 vintage of the same sweet wine sold for the same sum: it was still in its original bottle.

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Brazil returns to the fold

AFTER a wearing number of false starts, Brazil and the commercial banks have finally reached agreement on the rescheduling of Brazilian medium- and long-term debt and on a new financial package. This means the formal abandonment of Brazil's attempt to strike a debt relief deal outside the framework of the International Monetary Fund (IMF) and the established norms of the banking community.

Orthodoxy

Since Brazil is the largest Third World debtor, and has been observing a unilaterally-imposed moratorium for 16 months, this signals a walcome return to orthodoxy.

Brazil did not benefit from the moratorium. On the contrary, reserves had to be placed at low interest in the custody of the Bank for International Settlements to avoid seizure. As for operating outside IMF discipline, this merely seemed to encourage weak economic management. The Brazilian experience confirms that heterodox experiments, at least when badly managed, are counter-productive.

Furthermore, it suggests that radical actions, especially if inadequately planned, do not necessarily force the creditor nations and commercial banks to alter their positions. The case-by-case approach to debt remains in place, despite the continuing contradiction between the huge outward transfer of resources to service debt and the need for fresh funds to restore growth. The low-key language devoted to the plight of the middle-income debtors in the G-7 summit communique this week underlined that no new global initiative is in the offing.

Even allowing for the difficulties of a non-elected president operating in a constitutional vacuum, Brazil does not deserve much sympathy for its handling of its debt problems. President Jose Sarney and his advisers have been unnecessarily confrontational both with the banks and the IMF. Meanwhile, economic policies have been distorted by short-sighted political considerations. These distortions have been compounded by poor administration and a bewildering series of changes in the economic team caused by factional disputes.

Only since January, when Mr Mailson da Nobrega took over the finance portfolio, have dealings become easier with the international financial community. Mr da Nobrega accepted the futility of confrontation and the need to bring the banks and the IMF on board. The agreement with the commercial banks is broadly similar to those already negotiated with the region's other major debtors, Argentina and Mexico, although for the first time an attempt has been made, with an eye on bank regulators, to enhance the quality of the new money compared with the old loans. Otherwise, the difference is one of degree. The Brazilian deal, a multi-year agreement covering maturities between 1987 and 1993, involves larger sums of money, contains the loosest linkage yet with an IMF programme and offers the most extensive menu of options to encourage the reduction of debt. Almost $52bn of debt (half Brazil's total foreign debt) will be rescheduled over a 20-year period with a sharp cut in interest rates. Additionally, the banks will provide $5.2bn in fresh funds over the next nine months.

It remains to be seen how the 700 creditor banks will be impressed by the agreement, and particularly whether they will show greater enthusiasm in taking up the various options to convert and reduce Brazilian debt. Mexico, which has a far better track record of economic management, has been bitter over the poor response of banks on this score.

Uphill battle

In the meantime, serious doubts must surround not only the Sarney Government's ability to sell the agreement at home but also to manage the economy in a way which takes advantage of the agreement. The government's image is tainted by corruption scandals and its attention absorbed by the closing stages of drawing up a new Constitution. At the same time, Mr da Nobrega's position as a technocrat administrator is far from secure. He is fighting an uphill battle to hold down public sector wages that only last week led to a clash with the powerful military establishment. Under these circumstances, it would be unwise to forget that the present agreement is only one of a range of measures that are needed to restore Brazil's economy.

Bleak future for the Underground

LONDON Regional Transport has just published its strategy document for the next three years. The plans it outlines are more intelligible than the messages it broadcasts to bewildered passengers in overcrowded Underground stations. But they are equally unreassuring. Those who live or work in London can look forward to higher fares, but they should not expect early relief from chronic congestion. Services, say the management, have already been increased to the limit permitted by rolling stock and signalling systems.

Many travellers will regard this outlook as quite intolerable. The south-east and London have experienced rapid economic growth in recent years. Personal incomes have risen sharply. Yet journeys to work have become increasingly unpleasant – in some cases unhealthy. The overcrowding during rush hour on some routes has reached disturbing levels.

Passenger strikes

The level of consumer discontent has reached such a peak that delays are sometimes caused by the passengers themselves. We have entered the era of the "passenger strike". Travellers, incensed by interminable delays and cancellations, have been known to sit tight in a train, ignore the "all change" order and await the arrival of the police.

The quality of the service has deteriorated for two main reasons. In the first place, London Transport suffered badly from the public expenditure constraints of the late 1970s and early 1980s. Between 1975 and 1982, real capital expenditure fell by more than 50 per cent. It has since partially recovered. Gyrations are understandable because rolling stock is replaced at irregular intervals, but this squeeze was too intense.

The second factor is the increase in demand for services. Traffic has increased by a third since 1983, far more than could have been anticipated. Indeed, following a peak in demand in 1948, managers had grown accustomed to a slow but steady decline in passenger volumes. The reversal of the trend in the 1980s appears to reflect the strength and duration of the economic recovery – and the introduction of much more flexible payment mechanisms. Fixed fees for travel over set periods have reduced to zero the cost of marginal journeys: the result has been a big increase in demand, especially for additional off-peak journeys.

Meeting demand

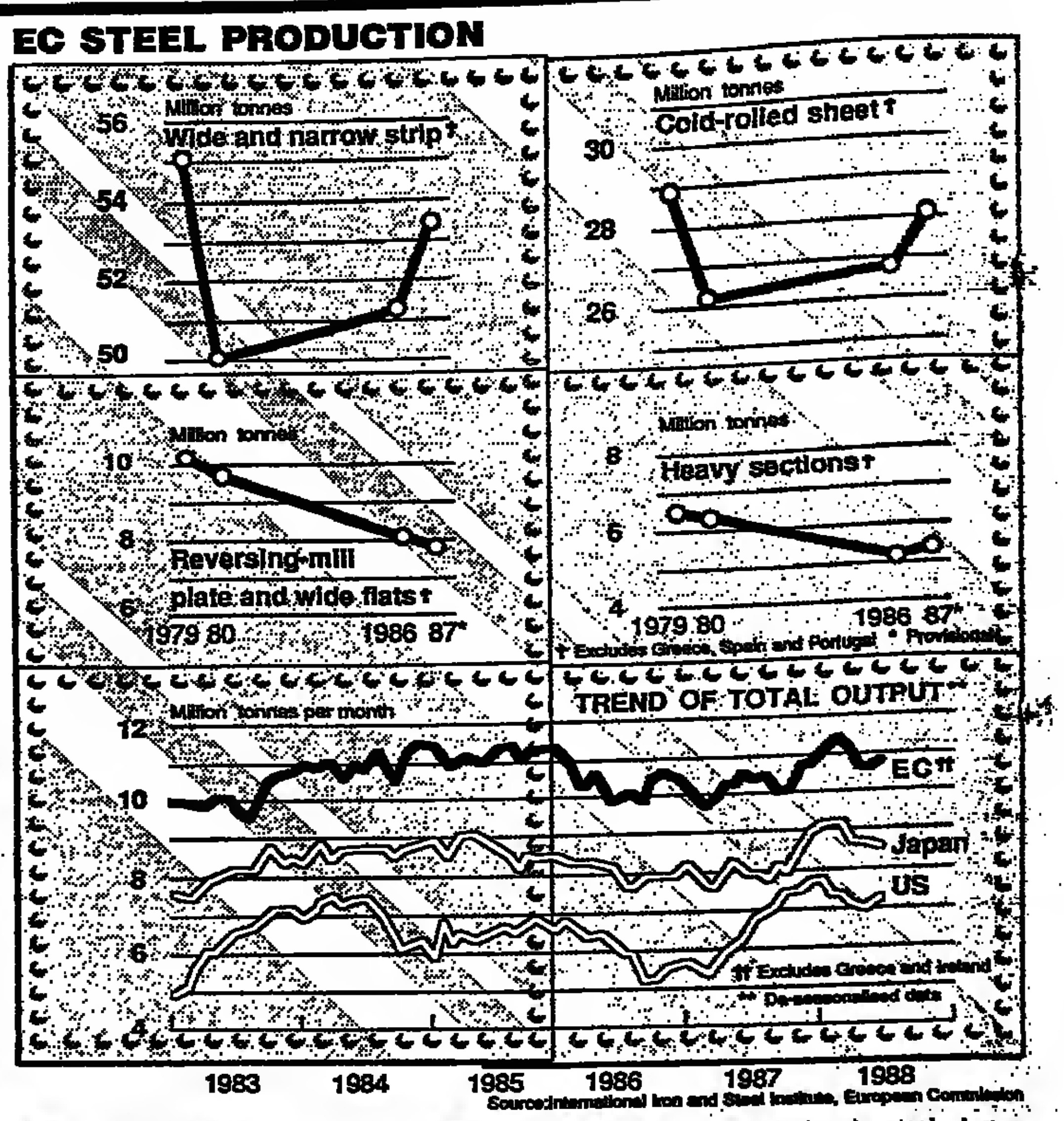
There is controversy about the correct response to this surge in demand. Some recommend rationing through higher fares. LRT is doing a bit of this: the plan to raise fares faster than the rate of inflation will force some people off the Underground. Others argue for substantially increased capital spending, the introduction of New York style "express" trains and several new lines. Given the neglect of previous years, an expansion and modernisation of the service is clearly overdue.

But even if a significant increase in capacity were approved, the short-to-medium term pressures would remain acute. It would take 10 years to build a new line. There is a case, therefore, for attempting to meet the demand in a different way. The obvious solution is to encourage the use of buses, which, relative to the Underground, are under-utilised. The number of people coming into central London by bus during the morning rush hour has fallen dramatically over the decades. The figure was 209,000 in 1961, 175,000 in 1976 and only 79,000 last year.

The increase in traffic congestion is one reason for the decline in the relative popularity of buses. People will abandon the Underground in favour of buses only if the latter can provide a quicker and less erratic service. This is likely to be possible only if the density of private motor traffic is reduced. The best way to make progress here is to levy taxes on motorists in recognition of the congestion costs they impose. It may be politically unpopular, but London's traffic problems will be solved only if the costs and benefits of different modes of transport are simultaneously examined.

William Dawkins reports from Brussels on the imminent demise of an EC-sponsored cartel

Europe's steel rejoins the free world



THE EUROPEAN Community's steel output controls – which have propped up prices for the past eight years – are due for their death sentence at a meeting in Luxembourg later today. The European Commission has decreed it must happen, because the market is healthy enough for steelmakers to do without protection. The EC's 12 Industry Ministers will have little choice but to go along.

The death of mandatory quotas will be a dramatic change. Brussels today dictates how much individual companies may produce for roughly half of the EC's 140m tonne steel capacity. That covers hot rolled coil and cold reduced sheet (used by the car and engineering industries) heavy plate (used in shipbuilding) and structural beams (for the construction and building industries).

Producers fear today's decision will provoke a subsidy and price war that might hasten the end of the fragile upturn in prices the industry is now enjoying. They already expect to lose another 55,000 jobs in the next two years, on top of the 500,000 job cuts in the EC steel industry since 1980. Steel users are looking forward to a long overdue fall in prices and a big improvement on the three-month waits for deliveries that many are now having to endure.

Today's decision will not be easy – except for the UK and the Netherlands, which see the quota system as an unnecessary restriction on their efficient producers. It means British Steel will no longer have to pay a rumoured £15 per ton to buy extra quota rights, a burden it will be only too glad to shed ahead of its privatisation.

But the change will be hard to stomach for the West Germans, despite the fact that their steelmakers are also highly efficient (see below). They resent strongly having to compete against subsidised Italian steel and see no point in ending quotas until illicit aid is banned. But they have little faith that Brussels's inquiry into Government aid for Finsider – renamed Ilva since the voluntary liquidation announced last month – will bring real results.

France does not relish exposing Usinor-Sacilor to a free market just as it is in the middle of a far-reaching restructuring programme; Finsider would be in terminal trouble without the enormous debt guarantees it gets from Rome; while Cockerill-Sambre of Belgium and Arbed of Luxembourg want to hang on to the quota system because it guarantees them access to larger markets in other member states.

Yet however little most of the people round the table in Luxembourg like the idea, they all know the end of quotas is inevitable. Under EC steel rules, quotas can only be imposed legally if the industry is in "manifest crisis" – and it is a long way from that.

The industry is profiting from an unexpected boom in demand. EC steel output hit 34m tonnes in the first quarter of 1988, around 4m tonnes ahead of Commission estimates, boosted mostly by an increase in industrial investment.

EC hot rolling mills are on average working at 77 per cent of capacity, just a whisker away from the 80 per cent the Commission estimates is the ideal for long term viability. But Commission and industry experts agree that bad times are just around the corner and that the outlook is for a long term decline in steel demand.

There is often a way round uncomfortable decisions in EC politics – and the quota system has been subject to more than its fair share of prevarication by both the Commission and member states. But not this time. EC governments do have the right to propose their own quota system, rather than heeding the Commission's plans. But they must be unanimous to do that – and any such idea would be automatically blocked by Britain and the Netherlands.

Brussels was prepared to bend the rules and consider continuing the system to 1990, on condition that steelmakers volunteered to shut roughly three-quarters of their 30m tonnes surplus capacity.

But by the June 10 deadline set for the producers' third attempt to find adequate voluntary closures, they came forward with precisely nothing for the 7.5m tonnes required out of the total 10m tonnes of surplus prodnction potential in hot rolled coil.

All this puts the Commission in a position of unusual power – and, unnsually given its past record on steel, it is determined not to be swayed. The Brussels authorities' dawn raid early last month on seven EC stainless steel makers suspected of running their own cartel outside the official quota system – which does not apply to stainless – is a sure sign that they mean business. And only last week, Mr Karl-Heinz Narjes, the EC industry commissioner, was stressing that "now is the time for steel firms to stand on their own feet"; a remarkable about-turn for a man who was proposing only a year ago to keep steel quotas until the end of 1990. Now the dominant feeling in the Commission is that this Brussels-anthorised steel cartel is a glaring contradiction to the EC's campaign to create a free single market by 1992, rather than the essential safety net of the past.

So the only question now is what kind of EC steel policy replaces the quota system. There is an outside chance that output controls might continne for heavy beams, where EC mills are running at less than 60 per cent of capacity, and where just over 2m tonnes of voluntary closures are available. For the rest of the products about to drop out of the system, Eurofer (the "club" of big integrated steelmakers) and the majority of big steelmaking countries are urging on the Commission a return to informal voluntary outpnt controls, to be refereed hy Brussels, of the kind thet existed from 1977 to 1980. How Brussels will respond is uncertain.

"If we can be helpful without the emergence of cartels or price arrangements we will do that," says Mr Narjes. One kind of help already in place is an Ecu 300m (£200m) fund for retraining and job creation in steel closures areas, which Mr Narjes is proposing to double. The other options open to the Commission under vaguely worded EC steel rules are very wide.

Several Commission officials doubt whether all Eurofer's members would really observe voluntary output controls at a boom time like this. It was difficult enough to get the 1977-1980 gentlemen's agreement to stick, and that was when the industry was buckling down for a crisis. Then, the arrangement broke down when Klöckner of West Germany refused to observe Commission production guidelines. Steelmakers, so the argument goes, would be even keener to break ranks now to take full advantage of an upturn that they all fear will be short lived.

West German industry escapes to greener fields

SINCE 1975, West Germany has reduced its raw steel capacity by more than 22m tonnes, over one third. It accounts for abont half of all EC steel closures despite representing only one-third of the EC industry. The five original Ruhr region steel producers – Thyssen, Krupp, Mannesmann, Hoesch and Klöckner – have over the past 13 years produced no less than 35 year-end results without a dividend, and two of the companies have had to reduce their share capital. Jobs have been rednced from 337,000 in 1975 to 180,000 today with an agreed further reduction to 160,000 by the end of 1989. And the steel companies federation calculates that its members have paid more than DM 7bn (£2.2bn at today's exchange rates) in "social" closure costs since 1980.

The effort has paid off, thanks in part to the recovery in steel demand. As one German steel boss said recently: "When market conditions are right steel is a beantifully simple and highly profitable commodity."

He does not, however, regret for one moment the diversification effort of the last ten years which has left his company – like most of the other big prodncers – far less dependent on the vagaries of that market.

Some steel producers, such as pnhlicly owned Salzgitter or unqnoted Krupp, have always had large non-steel components. Others have followed. Thyssen, still West Germany's higgest steelmaker, derived 95 per cent of its sales at the end of 1972, from steel, special steel or trading. Now steel and special steel accounts for just over 35 per cent of sales; the company has diversified into the capital goods and processing industries. Raw steel made a pre-tax loss of DM 126m in 1986-87 but the whole group still managed a pre-tax profit of DM 535m.

At Hoesch, to take another example, steel is down from over 50 per cent of sales 10 years ago to about 35 per cent now, thanks to some sensible acquisitions in machine building and software, and the shedding of steel long products. Tha picture is less bright elsewhere – but nevertheless most of the steel divisions of the conglomerates are now working from a securely profitable base, except in especially difficult years like 1986-87.

The West German industry received, proportionately, the least state aid between 1975 and its banning by the EC in 1985 – only about DM 7bn or less than seven per cent of the total disbursed. So why are the pro-market Germans not enthusiastically supporting the imminent suspension of the final half of the EC steel quota system?

They argue that the effect of huge, albeit legal, subsidies in other countries prior to 1985 has left lingering benefits, such as the lack of debt in British Steel's balance sheet. They also argue that illegal subsidies are continuing – in Italy especially – and that as soon as the current boom ends and a price war begins, inefficient public sector producers will have their uneconomic price-cutting underwritten by governments.

West German claims of unique virtue overstate the case a little. In relative terms, steel job losses have been higher elsewhere than in Germany. And, because West Germany started slashing capacity sooner than most, its cutbacks are less impressive if you take a more recent timescale. Between 1980 and 1985 German capacity reduction at 12 per cent was actually the lowest of the major producers (although subsequently there have been several major closures).

Germany might also show a little more gratitude towards the EC crisis management system. All European producers, public and private, misjudged the market at the start of the 1970s and opened far too much fresh capacity. Equally, all these European prodncers have benefited from the qnota cartel arrangements and the reduction in capacity of 35m tonnes between 1980 and 1985, which helped snpport prices. Germany has, additionally, benefited from quite generous quotas and from the fact that its largest prodnction category – flat products – has remained under quota to the bitter end.

None the less, the Germans can reasonably claim that their relative efficiency has not been, and will not be, properly rewarded until hidden subsidies elsewhere in Europe are dealt with. But when the slow downward trend in world steel demand reasserts itself, the Germans will cope better than most. The rationalisation that has already taken place, the industry's high level of technology, and its strong home market ensures the industry's future. And the increasingly specialist market suits specialised producers like the Germans.

That does not mean Germany can avoid further rationalisation. The weaker groups like Klöckner and Krupp have yet to prove that their latest reorganisations are sufficient. And it is doubtful that Germany can sustain six giant strip mills far into the 1990s. Thyssen owns two of them. As long as they are both making money, closure is absurd; and soon as they stop doing so the company will not need an EC official to tell them to cut their losses.

David Goodhart

OBSERVER

Reviewing the numbers game

■ The Central Statistical Office was set up by Winston Churchill when he was Prime Minister in 1941 largely because he was fed up with receiving contradictory figures from different government departments. After the war, however, the process of centralising official statistica was not taken much further.

That may be one reason why the Government has been obliged to undertake an immediate review of the quality of statistics. Another may be that shortly after Margaret Thatcher became Prime Minister the size of the statistical service was cut back as a result of the review by Sir Derek Rayner. There was a suspicion at the time that the cuts would be regretted: for example, some samples of business activity are now thought to be too small to produce reliable data.

The new review is expected to take about three months. Yet there appears to be no great pressure for the service to be centralised under the CSO.

At present the CSO employs 53 statisticians. The Government Statistical Service as a whole, including the CSO, employs 599, of whom about 60 are usually doing other work. Jack Hibbert, the head of the CSO, is also the head of the GSS and sets standards for training and accuracy. But the CSO does not see, let alone supervise, many of the government's statistical releases before they go out.

One anomaly is that the retail price index continnes to he looked after by the Department of Employment. That is because the Department has officials all round the country, whereas the Treasury does not.

The CSO takes the view that while most Departments tend to regard the tables as sacrosanct, some of them have become a bit free with the accompanying comment. Tom King, the Northern Ireland Secretary, gets some of the blame for this practice because of the glosses his Department added when he was at Employment.

The Department of Trade and Industry is not terribly popular for the way it handles figures either, and is conducting its own review.

Peter Walker, the Welsh Secretary, recalls that when he was at the DTI in the early 1970s there was a customs strike and therefore no trade figures. "No matter," said Sir Claus Moser, then head of the CSO. "Just weigh the invoices." So they did and the figures came out about right.

Tribute indeed

■ The Gorbachev regime has paid tha ultimate tribute to Margaret Thatcher. The latest work on perestrolka, including an article by Dr Andrei Sakharov, is called "There is no Alternative".

"Could you pass me the after take over mints?"

All in the air

■ While it may be cold comfort to current hay fever sufferers, they could draw some consolation from the fact that things have been worse.

Yesterday's count of 116 was lower than this year's peak of 440 on June 19 and nowhere near tha record of 720 in 1964.

The count is issued by Dr Roland Davies at the department of medical microbiology, St Mary's Hospital, Paddington. He started the count in 1961 as a bulletin for the Asthma Research Council and it has since become essential reading for the thousands of sufferers every summer.

For the technically minded, the connt is undertaken hy a machine on the roof of the nurses' home which sucks air through a sampling orifice. Dust is impacted onto a slide which is changed every 24 hours. Pollens deposited there are counted under the microscope and a figure can be produced for the number of pollen grains per cubic metre of air averaged over the day.

The greatest suffering is caused by grass pollens, although tree pollens are emitted from catkins, particularly from the birch and plane trees in London. A private London clinic, City Health Care, estimates that 15 per cent of its summertime patients have hay fever and physiologist Malcolm Emery hlames the trains coming into the city, whipping up rye grass as they travel along.

While the count is very interesting, Davies himself said: "I don't think it does anybody any good because you can't make the observation before it has happened.

"When it is published as today's pollen count, it is in fact 24 hours old. I don't entirely approve of the way it is described in some of the national newspapers."

Davies does attempt, however, to make forecasts just as weather-forecasters do. He even predicts a starting date based on mean temperatures in April and May. This year he predicted June 6 as the critical day when the count would rise above 50 (the figure in Central London at which the eminent allergist, Dr Bill Frankland, noticed his patients beginning to suffer). It was June 5 when the count registered 104.

Back to flying

■ Colonel Ozires Silva, the departing chief exectutive at Petrobras, Brazil's state-owned oil giant, does not suffer from joh insecurity. The 57-year-old ex-test pilot has long known that ejection from his hotseat at the corporation's Rio headqnarters would mean happy and more lucrative landings elsewhere – almost certainly back in aviation.

In the 1960s, Silva's career looked less promising. He was passed over for promotion beyond colonel and – as was the custom under the military regime – quietly farmed out to state industry.

He joined a company called Embraer which, under his direction, grew from little more than assembling foreign products to supplying home-designed Tucano air force trainers to, among others, the RAF.

By careful market analysis, Silva also developed a Brazilian niche in the civilian market with his Bandeiranta and Brasilia 14-30 seat medium range turboprops, which are now best sellers, especially in the US.

The Colonel's self-taught business know-how both at Embraer and Petrobras could earn him fortunes on the boards of companies at home and abroad. Those who know him, however, guess that he will move heaven and earth to return in some shape and form to Embraer where he retains the non-executive presidency.

"Ozires," said a diplomat this week, "really should have been Japanese."

Pagan pleasures

■ Nothing in this world is new, not even the summer hippies. A cutting from a 1935 edition of the Central Somerset Gazette reports that residents were fed up to the teeth with strange people dancing around the Glastonbury Tor in the nude.

POLITICS TODAY: Joe Rogaly

The Great British Surfer

YOU CAN say what you like about Mr Kenneth Baker, and most of his colleagues do, but you have to allow that he really is shaking up Britain's schools and universities. The Secretary of State for Education is more often than not described in private as self-seeking, shallow and lacking in conviction. His pretensions to be a lover of poetry reveal an admirer of verse. He is as smooth as warm butter. As to what his enemies say, politeness forbids repetition.

My own view is that what goes on inside the soul of the education secretary is (a) unfathomable and (b) of less importance than his public record. This is beginning to look good. His Great Education Reform Bill (Gerbil) is well on its way through Parliament. It is not beneficial in *all* of its parts, but it is highly likely to bring about an historic reform of British education. He is determined to see it put into practice. He has in mind a substantial set of further actions, as we shall see. All this must be to his credit even if, as some say, he is the Great Surfer of British politics, a man who knows when he sees a good wave coming, an expert in vaulting on board and speeding home, smiling broadly, to the admiring shore.

Mr Baker perceived that the tide was in for reform as soon as he arrived at Education in May 1986. This was not difficult. It had in fact been coming in, for ten years – ever since the Labour Prime Minister, then Mr James Callaghan, uttered the daring words, "standards" and "accountability" in a speech at Ruskin College in October 1976. A series of education secretaries subsequently pursued the debate, but when it came to squaring up to the teaching profession none of them, not even the most passionately concerned Lord (Keith) Joseph, found the time ripe, or the current Cabinet ready.

In the summer of 1986 the Conservative Government grasped its opportunity. The ten-year debate had softened up middle class parents who were unhappy with the state school system. A series of disruptive actions by the teachers had turned public opinion against the profession. Mr Baker cama in armed by the Prime Minister with a down-payment of a substantial salary increase for the teachers. He paid up quickly. Then he set out to convert his own civil servants to reform. This was not so easy: all his predecessors, right back to Mrs Margaret Thatcher, have complained that the matter the department of education was least interested in was education. It has traditionally shuffled the accounts between local education authorities, leaving them to get on with managing the schools. They, in turn, have traditionally left the teachers to decide what happens behind the classroom door.

Mr Baker's Gerbil changes all that. The department will select and manage a pack of committees on education. These will advise on the curriculum, standards and testing. The Minister will, by statute, lay down the law on the basis of their recommendations. He is trying to make sure that the advice is not too tainted by the anti-reformists in the education establishment. The trouble is that there are not enough reformists on the lists of the great and the good from which his civil servants pick the advisory committee members. They are packing the committees as best as they can. Ministerial fiat will take care of the rest. In the end, the classroom doors will be burst open and the teachers will do as they are told.

This part of the package is unblushingly authoritarian. It is too much so for Lord Joseph, who has been arguing in the Upper House for a limited "core" curriculum that would leave more subjects open to free choice. Libertarians will agree with him. They might ponder the fate of children from homes without books, taught in second-rate schools by third-rate teachers who are governed by their own dotty notions of pedagogy. It is the Anglo-American way to leave teaching methods and choice of *subject* matter to the profession, but most of the rest of the industrialised world does not do so, and the individual states in the US are now producing their own curricula.

The Government reply to the charge of authoritarianism is that the part of the bill allowing schools to "opt out" of local council control into direct-grant status will open the market in education. It will certainly enable middle-class parents to take charge of their own schools. It should half-satisfy those on Mr Baker's right who seek a system of vouchers from the state. Each voucher would purchase a place at a school of the parents' choice. Since the new direct-grant schools will receive state money on a per-pupil formula, they will amount to very nearly the same thing.

Mr Baker is not so good at justifying himself when challenged about the fate of the children left behind in inner-city schools. Their parents are unlikely to choose direct-grant status; it is an open question as to whether those who do will be well qualified to pick headmasters who are also able managers. The education secretary says that the example of the grant-aided schools will spur tha local education authorities to greater efforts. His City Technology Colleges are also intended to show, by example, what centres of excellent teaching can do. He could be right – but some of the evidence from across the Atlantic is that the US "magnet schools", a model for the CTC's, are wonderful for their own pupils but leave those in surrounding schools worse off.

What is certain is that the Education Secrtary's pursuit of excellence in a great many schools will proceed with vigour. It will not be a matter of passing the Gerbil into law and then sitting back. For the Government does not trust the educational establishment. It is suspicious of most university professors of education, the teaching unions, the local education authorities and Her Majesty's Inspectors of Education. If the national curriculum with all its associated testing is to be put in place and made to work it will have to be done against the present will of large parts of that establishment.

Mr Baker takes the line that he would above all like to be remembered for putting his major reforms into both law and practice. He could hardly profess anything else. No one can say whether he will catch another wave that will take him on to even higher things, although his eyes do sometimes dart about a bit. To the delight of No 10 Downing Street he will embark on an autumn tour to sell the bill to local education authorities and school boards throughout the country, just as Mr Kenneth Clarke has been obliged to traipse around from one working breakfast to another on the Prime Minister's Inner Cities campaign. The education tour will no doubt also be backed by the Prime Minister, before the cameras. On present plans there will also be an exhortatory booklet, just possibly called "What Works", after a famous American example.

Teacher and headmaster training will be a fresh pre-occupation in the autumn. Downing Street has been taken with the idea of an elite college for headmaster-managers, a Sandhurst or West Point for schools. Mr Baker's current view is that the people appointed to run such an academy would be more likely than not to entrench present practice. He is talking about using the private sector for managerial training of headmasters and postponing the elite college until the correct people can be found to staff it.

The biggest change of all will become apparent over the next 18 months or so. It is now acknowledged inside the Government that the section of the Gerbil dealing with tha universities was an un-Thatcherite mistake. The blame is cast on past ministers and a particular civil servant, but that is a matter of detail. For Mr Baker's bill virtually nationalises Britain's universities, by taking much tighter formal central government control over their funding. It carries the potential for ministerial direction of what the universities shall teach. If there is justification for setting standards for school teachers there is none for such an east European approach to the universities.

Governments being what they are there is no question of publicly admitting the mistake and starting again. The bill will become law; the new mechanisms will be set in place. The mistake will be entrenched. Yet Mr Baker is already thinking about a totally different approach to university funding. The essence of this was suggested earlier this year by Elie Kedourie, Professor of Politics at the University of London. Do not fund the universities directly, said the Professor. That makes them supplicants, dependent on the Government. His free-market audience agreed that it would be better to pass the money to the students who would then pay it over as a fee to the university of their choice.

Mr Baker now wants to move towards that system. To his way of thinking, *if* it had been suggested a couple of years ago people would have decried it as right-wing lunacy. Now it is near the forefront of the debate on higher education. The first step will be an announcement that the *subsistence* grant to students is to be frozen at the current level. A top-up loan will be made available. (The Treasury tried to get a reduction in the grant in return for subsidising the loan, but the Education Secretary said he could not sell that.) There will be a row with the students, but after thet has died down the time will come to further stimulate the debate on paying a grant to cover *tuition* fees.

You can bet that the Treasury, perhaps pointing to the Australian Labor government's example, will try for a system thet covers all but, say, a quarter of tuition fees, but thet is not its only concern. Another is that if such a change is to represent a truly free market many more people might try for a university place, plus tuition grant, thus exploding the budget. Some hope is placed on the past nine years of squeeze, which have forced universities to seek private funding and fat fees from foreign students. Perhaps that will reduce the amount that must be raised from domestic tuition charges and thus make a per-student grant look less costly.

If papers on all this exist, they are very early drafts. Mr Baker is still looking behind him, watching the water.

CORRECTION: An article on this page on June 22 and an accompanying chart reported the volume of shares traded on the NASDAQ system in thousands, instead of millions. An average of 117m shares a day was traded in May.

Lombard

Coming to terms with Stalin

By Margaret van Hattem

HALF A CENTURY after Arthur Koestler wrote the script, Moscow is finally staging the production. Unravelling (in his book Darkness at Noon) the tortured logic behind those grotesque confessions, made at Stalin's show trials, of the "old Bolsheviks," Koestler held out one ray of hope for the executed Bukharins, Kamenevs, Zinovievs, Rykovs and Radeks.

"The party promises only one thing," Gletkin the interrogator tells Rubashov, Koestler's composite figure for those who had been liquidated – some of whom he had known. "After the victory, one day when it can do no more harm, the material of the secret archives will be published. Then the world will learn what was in the background of this Punch and Judy show . . . and then you, and some of your friends of the older generation, will be given the sympathy and pity which are denied to you today."

The rehabilitations have begun. In February, Bukharin; then Radek and Pyatakov; earlier this month, Zinoviev and Kamenev. There is even speculation that Trotsky may be next. But the question is: will recognition of what happened under Stalin teach the right lessons? The tendency to attribute all the evils of the Stalin years to the "personality cult", and to Stalin's perversions of true socialism, is dangerously close to Gletkin's *apparatchik* thought-processes.

The rehabilitation of the old Bolshevik heroes will be a purely cosmetic exercise if it is not accompanied by a conscientious re-examination of the reasons for their acceptance of the reality of Stalinism, as distinct from its façade – why the desperate measures taken seemed to them not only justifiable at the time, but vitally necessary.

Mr Mikhail Gorbachev's attempts to carry out one of the most hair-raising U-turns in history, in order to transform a political culture, will similarly be rendered nugatory if the case for applying the brakes is not freely argued and clearly answered.

Merely to attribute resistance to his programme to conservatism, vested interests, petty internal power struggles and fear of responsibility, is to run away from the real battle. There are valid arguments against *perestroika*, a high-risk strategy which carries – along with the promise of economic improvement and more democracy – a real threat to the cohesion of the state, with no guarantee of final success.

On the contrary: reforms along similar lines in Yugoslavia, with its similar fissiparous structure and nationalist tensions, have been producing economic and political paralysis. Welcome though Mr Gorbachev's reforms are, they will not begin to take root unless the arguments against them can be openly expressed, and the risks openly admitted and weighed.

It is all too easy to condemn the atrocities and repressions of the Stalin years and to denounce as monsters those who perpetrated them. A case can be made for the desperate remedies adopted by Stalin and his followers; and unless that case is openly put and answered, the Soviet people will not really come to terms with their history.

Nobody could seriously claim that the need to protect and consolidate the achievements of the Russian Revolution can justify the genocide, the death camps, and the unbridled terror of Stalin's regime. But nothing is learned until it is understood how and why intelligent men – men of good faith and passionate idealism – were willing to make such horrendous accommodation between their ideals and their practice; and how and why the Soviet people – who were not asleep through the years of famine, forced collectivisation and the disappearance of 20m or so friends and neighbours – deified their "Uncle Joe".

As General Walter Krivitsky, head of Soviet Military Intelligence until he broke with tha regime in 1937, later explained: "The confessions never presented a riddle to those of us who had been on the inside of the Stalin machine. They sacrificed honour as well as life to defend the hated regime of Stalin, because it contained the last faint gleam of hope for that better world to which they had consecrated themselves in early youth . . . "

Letters to the Editor

Development aid priority

From Mr Jacques Pelletier.

Sir, Contrary to what David Buchan says in his report on the meeting of the "Development" Council of May 31 (FT, June 1) France is in favour of the Commission's proposal to introduce an adjustment support mechanism into the future European Community/African, Caribbean and Pacific countries convention. We are even the only member state to have indicated straight away how we would consider funding it.

As for the crucial need to maintain the priority given to long-term development aid, there is consensus between the Twelve on this point, borne out by the conclusions approved by the ministers, who also recognised the complementary and non-contradictory nature of adjustment aid operations.

I hope these clarifications may make for a better presentation of the French position in further reporting on the subject.

Jacques Pelletier,
Minister of Co-operation and Development,
Paris,
France

Trade marks office should be in London

From Mr Iain Mills MP.

Sir, There was some misunderstanding in your article "Trade mark issue may go to summit," (June 3). I have had the personal assurance of the Prime Minister in answer to a question that the Government promises generous financial support for the establishment of the European Trade Marks Office in London.

I know that ministers are as determined as myself to ensure this location, and we have the full backing of the Confederation of British Industry and all concerned with intellectual property.

Iain Mills,
House of Commons, SW1

Why read the Financial Times?

From Mr Peter Marks.

Sir, I do not know whether Mr J.D. Sutherland (Letters, June 16) has any authority other than his own habits for his account of why people read the Financial Times. He may be right, but surely many readers, like myself, have an order of priorities precisely the opposite of his?

"Chief London price changes on the back page": I had never noticed they were there. "The price of their own shares": I have none. "The stock exchange report": rarely a glance, though from other features I keep abreast of broad trends in all the main financial markets, and get some idea of their causes and effects.

"Letters": yes. But mainly I read the FT as a means of finding out and appraising many aspects of what is going on in the world, as contained in your variety of news, features, articles and comment – lumped together unread by Mr Sutherland as "in-depth reportage".

I wouldn't know if he is right about the Sun. The time he spends on it I give to your crossword.

Peter Marks,
23 First Avenue,
Westcliff-on-Sea, Essex

From Mr R.S. Bristowe.

Sir, A straw poll among friends and colleagues reveals a very different reading pattern of the Financial Times from that suggested by Mr J.D. Sutherland (Letters, June 16), who appears to start at the back and stop before the middle.

The "alternative" reader scans the front page for the summary news items, then turns to the editorial, Observer, and the other articles on those pages before working to the front via the arts and employment pages.

Since such readers rarely – if ever – read the stock exchange and business pages, there would seem to be a splendid market opportunity for enterprising newsagents to tear the paper approximately in half, and satisfy both types of reader for about 25 pence per day.

Richard Bristowe,
47 Gunton Road, E5

From Mr A.B. Hawkins.

Sir, If Mr J.D. Sutherland (Letters, June 16) skims through the FT in the way he says, his financial judgement is as poor as his powers of clairvoyance. He could get the same information from newspapers which cost considerably less than the Financial Times.

In case you should be depressed, Sir, at the thought of several hundred thousand readers purchasing your expensive newspaper for so little return – and at the further thought of the money the FT must be wasting on highly paid financial and political philosophers who expound their intricate theories apparently to so little purpose, let me assure you that I read, first, most of the front page; then the back page (except for the chief London price changes), particularly the first part of Lex. Next I read the UK business news; and so on to bits of the Parliamentary report and the rest of the general and political news.

A.B. Hawkins,
8 Caernarfon Close,
Swanwick,
Derby

Attitudes to public flotation

From Mr W.J. Bishop.

Sir, Mr Ewan Macpherson (Letters, June 21) erects an unwieldy tower of reasoning about attitudes of venture capital fund managers to public flotation of their investee companies. It is doubtful if this can really be justified by a single case of an issue being withdrawn, but the foundation of his comments is also defective in one important way.

It is suggested that many funds are organised so that, when investee companies become listed, securities in them are distributed *in specie* to the original providers of the money for the fund. I have read the documentation for many such funds, a number of which have provided for distributions *in specie* as an alternative to cash distributions, but I have never seen one where this was in any way mandated at the time investee companies became quoted, as opposed to being allowed some time thereafter at the managers' option, often subject to backing from an advisory committee representing the underlying providers of capital.

There is some risk that the operation of the venture capital investment process, and the desire of venture capital managers to demonstrate an early return to underlying investors, can lead to pressure on investee companies to go public prematurely. However, this seems to apply regardless of the source of the funds invested.

To suggest, as Mr Macpherson does, that there are conflicts of interest involved that could lead to unreasonable pressures on companies to *defer* going public seems to me perverse. Further to suggest that these – largely imaginary – conflicts of interest apply only to managers investing money for outside institutions as distinct from in-house funds seems potentially divisive. These unjustified suggestions could harm further progress in the British venture capital industry.

W.J. Bishop,
15 St James's Square, SW1

The debt burden of developing countries could be eased

From Mr Chris Economides.

Sir, An effective measure to ease the debt burden of the heavily-indebted developing countries (LDC) would be to convert their loans to undated loans and fix their interest rates at low levels commensurate to their gross national product (GNP) growth rates.

A similar conversion was effected in Britain during the "Great Depression," in December 1932, when the 5 per cent war loan 1929-47, issued during the First World War, was converted to the undated 3.5 per cent war loan, the nominal value of which was £2bn – equivalent to £45bn at today's purchasing power.

Apart from the 1932 conversion, all public loans of Britain and other industrial countries are virtually undated because they are always replaced at maturity by other new and bigger loans. The 19th century idea of creating a sinking fund ultimately to extinguish the British public debt was abandoned as unrealistic and uneconomic.

In the same way that it would be unrealistic and uneconomic to ask the governments of industrial countries continually to run budget surpluses in order to repay their internal public debts, it would be equally unrealistic and uneconomic to ask the LDCs continually to run budget, trade and current account surpluses to repay their international debts. The latter would mean continual transfer of resources from the LDCs to the industrial countries. This would have grave repercussions on world economic, social and political order.

The major industrial countries need to dismiss their monetarist "inflationophobia" and boost their economies co-ordinately so that their demand for commodities would increase; their exports to LDCs would also grow; and international economic relations would revert to pre-1974 "stagflation" order, in which resources were flowing from the industrial countries to LDCs.

Chris Economides,
Economides Centre for Economic and Political Research,
Nicosia, Cyprus

FINANCIAL TIMES

Friday June 24 1988

De Benedetti to slash SGB stake

BY ALAN FRIEDMAN IN MILAN AND TIM DICKSON IN BRUSSELS

EUROPE'S most spectacular hostile takeover battle will come to a definitive close this morning in Brussels when Mr Carlo De Benedetti, the Italian entrepreneur, is expected to announce the sale for around $1bn of more than half his share stake in Société Générale de Belgique, to his bitter French rival, Compagnie Financière de Suez.

The deal will clear the way for Suez to become the undisputed majority shareholder of Société Générale, the Belgian holding company which, through stakes in more than 1,200 different businesses, influences between 20 per cent and 30 per cent of the Belgian economy. The transaction will leave Mr De Benedetti and his allies with 22 per cent of Société Générale, a stake that will be diluted to just below 16 per cent after the issue of 10m new shares. The Suez camp will end up with more than 50 per cent of Société Générale.

The complex agreement worked out earlier this week in Paris will also see Cerus, Mr De Benedetti's Paris-based holding vehicle, increasing its shareholding in Suez from 1.1 per cent at present to around 4.5 per cent.

This is likely to be achieved by way of an increase in Suez's share capital reserved for Cerus and should cost the De Benedetti camp between $150m and $200m. Suez, in turn, is expected to subscribe its portion of a Cerus fund raising stock issue at a cost estimated between FFr300m ($50m) and FFr500m. Suez owns 10 per cent of Cerus.

The truce will see Mr De Benedetti and his allies awarded a total of four seats on the Société Générale board of around 20 members and a place on the executive committee. Viscount Etienne Davignon is thought likely to be named president of Société Générale, with Mr De Benedetti serving as one of three vice-presidents.

The other two vice-presidents are expected to be Monsieur Renaud de la Genière, chairman of the Suez group, and Mr Maurice Lippens, leader of Suez's Belgian shareholder allies.

For the Italian entrepreneur, who lost his bid for control of Société Générale two months ago, the accord with Suez represents an overall defeat which at the same time provides him with enough cash to pay off his debts.

On April 14, the day of the dramatic extraordinary general meeting of Société Générale that signalled his initial setback, Mr De Benedetti refused to admit defeat, saying that "nobody can fail to believe that sooner or later, in a week, in a month or in six months or a year, I and my associates will play the major role which is coming to us."

At a press conference this morning in Brussels, Mr De Benedetti and Mr de la Genière will attempt to put a brave face on their past differences. The sale of 7.5m of the 14m Société Générale shares held by the De Benedetti camp should represent an average price of around BFr5,000 ($135).

Assuming that his allies ask him to buy them out, Mr De Benedetti's outlay for Société Générale shares will have come to around $1.6bn. By getting back nearly $1bn from the sale to Suez, he will continue to have around $600m invested in the Belgian group.

Vatican conservatism has disappointed many Austrian churchgoers, writes Judy Dempsey

Wary welcome for an austere Pope

WHEN Pope John Paul II arrived in Vienna yesterday the cameras were watching closely to see how long he held the hand of Dr Kurt Waldheim, the Austrian President with controversial Nazi links.

But of far more significance will be the Pope's own response to a Catholic Church greatly changed from the one he visited five years ago.

More than 6m of Austria's 7.5m people belong to the church. But in recent years more Catholics have become critical of a wave of conservatism which has swept through the Austrian hierarchy, a trend encouraged by the Pope.

During the days of Cardinal Franz Koenig, the former liberal-minded Archbishop of Vienna, Catholics, like their counterparts in Italy, were allowed plenty of leeway on how they conducted their private lives.

Besides this enlightened approach, the Cardinal fostered a close relationship with Catholic and other churches in Eastern Europe.

Just as Mr Willy Brandt, the former Chancellor of West Germany, was willing to build bridges between Bonn and Eastern Europe, so Cardinal Koenig was determined to speak out against religious persecution in Eastern Europe and defend his fellow bishops in that region.

But the sober-minded, intellectual outlook of Cardinal Koenig has now given way to a more orthodox, conservative Catholic church hierarchy in Vienna which, instead of winning over believers, has led to thousands of people leaving the church as well as widening divisions within the church itself.

The roots of the divisions go back to late 1985 when Archbishop Hans Hermann Groer was chosen as Dr Koenig's successor. The new archbishop, besides lacking the charisma of Cardinal Koenig, is, as many liberal Catholics confirm, much more in tune with the Pope's teachings on discipline, particularly on family matters.

Liberal Catholics could ignore these policies, especially since Archbishop Groer himself was one of those Catholics instrumental in forming a dialogue between Austrian Jews and Christians earlier this year.

What they could not accept, however, was the way in which the Vatican and the Archbishop ignored the views of the laity and sections of the church as to who should be chosen as the auxiliary Bishop of Vienna.

Nineteen of the 21 parish priests in the Innenstadt, the central area of Vienna, opposed the nomination of Dr Kurt Krenn as the new auxiliary bishop because of his conservative attitude. But the Vatican ignored their views.

Today, Bishop Krenn, head of science and culture in the Catholic church in Vienna, has alienated many liberal Catholics. So much so that the Arbeiter Zeitung, the socialist daily newspaper, yesterday referred to him as "the Khomeini of Catholics".

As one liberal Catholic journalist put it, "democracy in the church here is being eroded. It is becoming authoritarian. Our views are not being listened to".

The growing conservatism, liberal Catholics believe, will not be stemmed by the Papal visit, not least because the Pope will have to discuss the filling of three important vacancies including the Archbishopric of Salzburg and the bishoprics of Vorarlberg and St Polten.

The real issue for many Catholics is: in what direction is the Austrian Catholic church heading?

The filling of the three bishoprics will almost certainly confirm the most pessimistic fears of the liberal wing that it is being relegated to the back of the church.

Pope John Paul II is greeted by Kurt Waldheim, the Austrian President, on his arrival in Vienna yesterday

Perrier hits troubled waters as bid for Catalan rival falters

By Peter Bruce in Barcelona

A FORGOTTEN rivalry stretching back almost 100 years is threatening to upstage Perrier, the world's biggest producer of mineral water, right on its own doorstep.

Perrier has run into almost impenetrable resistance to a takeover offer from the families who own tiny Vichy Catalan, Spain's leading sparkling water producer.

Feelings have been running high since Perrier persuaded some Vichy Catalan shareholders to part with 5.6 per cent of the company in January for Pta280m ($2.41m). Since then, no more shares have changed hands but, says Mr Juan Renart, Vichy Catalan's chief executive, "they have been going behind our backs (to shareholders)."

Affairs between France and Catalonia have not sunk this low since the Catalans opposed the French in the Spanish War of Succession (1705-1713) and lost. Vichy Catalan has refused to recognise the Perrier shareholding, arguing that the shares which changed hands should legally have been offered first to existing shareholders.

Perrier says it has been taken aback by the depth of feeling at Vichy Catalan. "We did not anticipate this," said one official. "It is like taking on Catalonia."

Vichy Catalan was founded by a Catalan doctor, Modesto Furest Roca, in about 1881. He discovered a spring near Gerona (close to the French border), the water of which closely resembled what he had tasted at Vichy, in France, a few years earlier.

Dr Furest apparently registered the name Vichy Catalan in Spain in 1890 before the French original had done so. The French, including Perrier after it took over management of Vichy Celestins about 40 years ago, have tried in vain several times since to rob the Catalans of the right to call their product Vichy.

"We have won them all," says Mr Renart. He believes successive Spanish judgments mean Perrier will not be able to sell its Vichy Celestins here.

The French, nevertheless, say they are determined to press their attack. At stake in Spain is a sparkling and non-sparkling mineral water market which consumed 1.2bn litres last year. Sparkling water accounts for about 30 per cent of that.

Vichy Catalan is a minor player compared with Perrier, which sold a billion bottles of water around the world last year. Vichy Catalan concentrates solely on the Spanish market and sold about 200m litres in 1987.

Not only does it dominate the local sparkling water market, its drinkers are also fiercely loyal.

Perrier, which brought its own finely-packed products into Spain for the first time in the last few months, says it wants to take 10 per cent of the market in the next two years. Its message to Vichy Catalan shareholders has simply been that the Perrier drive will be unstoppable once it gets under way. Far better, then, to sell now.

In the face of this, the Catalans are working hard to keep their cool. Vichy Catalan is poised to enter new markets next year when it builds a plant to bottle and distribute some 50 kinds of fruit juice in Spain and Portugal under licence to Granini, the West German producer.

After a series of shareholder meetings this week Mr Renart is certain that "all the shareholders are determined not to sell. If one day something really bad happens and we have to sell, we would rather sell to someone else," he says.

Perrier officials concede that breaking into Spain will be that much harder with Vichy Catalan as a competitor.

But there is something awesome and inevitable about Perrier's progress here. "We waited so long (to enter Spain) because we were putting a lot of effort into English-speaking countries," said the official. "We could not do everything at once (but) mineral water is our job. We are the world leader."

Even in proud and independent Catalonia, that might just count for something.

THE LEX COLUMN

Assorted choices for Suchard

Two assumptions were implicit in yesterday's market reaction to the Nestlé/Rowntree deal: that Suchard will take the money, and that it will try for Cadbury instead. The first looks highly probable; even though establishing an objective value for Rowntree is by this stage scarcely possible, there is limited point in sustaining the bluff against a competitor which can cover even its latest £2.55bn offer from cash resources. There is also a kind of logic to the second. Even as Suchard pocketed its £200m consolation prize, it would be faced with the grim fact of relegation to the second division in world chocolate. Joining Nestlé/Rowntree and Mars in the first division would mean a merger, and Cadbury is the only vulnerable candidate around.

There are two chief problems: that Suchard would not want – indeed, could not get – Cadbury in its present form; and that on a multiple of nearly 20 times 1989 earnings, Cadbury is outrageously expensive already. A hostile bid for Cadbury would presumably trigger an option for Coca-Cola to buy out the UK bottling business, thereby leaving Schweppes as essentially a franchiser of brands - decidedly the unfashionable end of the soft drinks business these days. For Suchard to get the chocolate business cheap would involve selling the remains of Schweppes correspondingly dear, and that is a trick best left to the likes of Hanson.

The more likely outcome would be some kind of defensive joint venture; and since it is Cadbury which needs defences, there seems no special reason why it should restrict itself to Suchard in looking for a partner. As for Rowntree, shareholders have every reason to be grateful to the directors for exploiting Swiss rivalry to such remarkable advantage. If blame need be assigned for the company's loss of independence, it surely lies with the market's stupidity in valuing the shares at only 470p just a few short months ago.

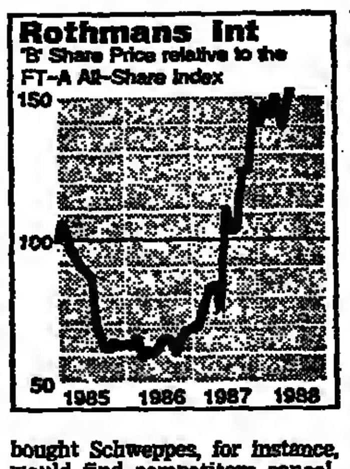
Grand Metropolitan

For the more ardent exponents of the Cadbury bid theory, a further candidate has now emerged, in the shape of GrandMet. It is known to have ambitions to expand in food, and it has just cashed in £400m through the sale of its bottling business in the US. But quite apart from the operational snags – any brewer which bought Schweppes, for instance, would find competitors cancelling their orders overnight – the problem is that GrandMet is not known for paying dilutive prices for acquisitions, or indeed mounting hostile bids at all.

It is certainly true that money tied up in bottling is rather like cash in the bank, and that drawing that money out looks rather like action stations. Most of GrandMet's recent acquisitions, though, have been small to medium sized. This would hardly suit the market, which, in its search for quoted candidates, has come up with such improbable though not impossible names as Unigate and Northern Foods.

But even if GrandMet does intend to lash out, there is no guarantee that it will be in the UK, or even on this side of the Atlantic. The group is perceived as being underweight in the EC in the run-up to 1992, but the sale of the bottling business is merely the latest of a series of disposals which have drastically reduced its North American exposure as well. Either way, there seems no immediate reason to hurry.

Rothmans Int
'B' Share Price relative to the FT-A All-Share Index



Rothmans

The market is in two minds over how to value Rothmans. The company has net cash of £440m, and stakes in Cartier and Dunhill which might be worth £750m or more. So its market value of £1.3bn almost gives away the tobacco business, which generates 80 per cent of the profit. Looked at another way, though, Rothmans seems anything but cheap on a p/e of 9 when BAT is on a full two points lower.

On balance, earnings seem the better guide to understanding the company, as the value of its assets seems a long way from being realised. Neither of the two major shareholders looks likely to bid: Rembrandt is, if anything, more likely to sell to pay for mining deals, while Philip Morris would presumably not be allowed buy it, although it is more than capable of preventing anyone else from doing so.

On earnings alone, Rothmans has deserved its premium to BAT over the past two years by virtue of the striking improvements made to its tobacco business. However, most of the advantage has now been felt, as yesterday's results showed. The 90 per cent leap in first half profits dwindled to barely 20 per cent in the second, and this year the improvement may be a much more pedestrian 13 per cent or so. If Rothmans is to hold its rating, it must now show the same knack for diversifying as it has already shown for rationalisation. But the new chairman, who must now find a home for some of the cash, has no easy task; the company is after brand names, and as prices demonstrate, so is everyone else.

Markets

Maybe the dollar has turned, but its performance in the last two days hardly inspires confidence. While US Treasury officials were yesterday predicting exchange rate stability, the markets themselves were telling a different story. The dash by everyone into the dollar seemed to be for the simple reason that it was going up, rather than because traders really believed the arguments that pointed that way. The sheer extent of the movement - two cents up followed by one cent back against the pound - suggests there may be some large and violent false starts before the dollar's rise really gets underway.

Meanwhile the concerted increase in interest rates that everyone expected last week seems not to be happening, perhaps because the rise of the dollar has been so uneven. Against the yen the dollar is still below its high for the year, hence the Bank of Japan's reluctance to raise rates. However, against the D-Mark, it has risen almost 10 per cent in a month despite this week's rise in German rates, making another increase look likely. The same can probably be expected from interest rates in the UK, although until the market sees the horrors which Monday's trade numbers may bring, it seems content to stick with 9 per cent.

Angolan concession raises peace hopes

BY MICHAEL HOLMAN, AFRICA EDITOR, IN LONDON

HOPES FOR a successful outcome to southern African peace talks opening in Cairo today have been raised by what could prove to be an important concession to the US and indirectly to South Africa by a senior minister in the Angolan Government.

In an interview with the New York Times, Mr Fernando Franca Van-Dunem, Angola's Justice Minister, said that his government was prepared to negotiate a withdrawal of Cuban troops from the country without first getting a US pledge to end support to Unita, the rebel movement led by Dr Jonas Savimbi. It is also heavily backed by South Africa.

Washington and Pretoria have made the withdrawal of an estimated 40,000 Cuban force a precondition to the implementation of a UN plan for Namibia's independence.

Both the US and South Africa have also made it clear that they are not prepared to abandon Dr Savimbi, currently on a visit to Washington, where he is expected to meet President Reagan.

Mr Van-Dunem was reported to have said that US aid to Unita guerrillas was "not on the table" at the Cairo conference, which will be chaired by Dr Chester Crocker, the US under-secretary of state for Africa, and attended by ministerial delegations from Angola, South Africa and Cuba.

"That is an issue that we will tackle at another time", said Mr Van-Dunem, who in Washington on Wednesday met Mr George Shultz, the Secretary of State. A US official described the comments as a "breakthrough", saying it removed "another impediment to a solution of the conflict in the region."

The main issue at the Cairo talks, which follow up a meeting in London in May and talks between Angola and South Africa in Brazzaville nine days later, is the wide gap between South Africa and Angola over the timetable for a Cuban withdrawal.

Angola's offer of four years is unacceptable to South Africa, and Mr Pik Botha, the Foreign Minister who is leading the South African delegation in Cairo, is expected to insist that it take place over 12 months.

This would approximately match Namibia's transition to independence, concluded by internationally supervised elections. South Africa would during this time pull its troops out of southern Angola and withdraw from Namibia.

US officials hope that the gap between the two sides can be narrowed at the Cairo meeting, expected to last three days.

If progress is made, further talks are expected at which Unita would be on the agenda. At their meeting in Washington, Mr Shultz told Mr Van-Dunem that the Angolan Government should hold direct talks with Unita.

Mr Van-Dunem's comments to the New York Times are open to conflicting interpretation. They could mean that the MPLA and Unita are closer to resolving their differences than is realised. It is more likely that the MPLA has decided it could get the upper hand over Unita once South African troops have been withdrawn from southern Angola.

Background, Page 4

Rowntree accepts new bid

Continued from Page 1

chocolate and confectionery strategy, although operational responsibilities will remain as they are.

Mr Kenneth Dixon will become an executive member of Nestlé's 10 man general management committee, the equivalent to the board of a UK company, taking responsibility for chocolate strategy worldwide.

Rowntree indicated that it had not gone to Suchard in an attempt to get a higher price, but was happy that Nestlé was offering a better overall package. Suchard had said Rowntree would have been run from York under existing management as part of its "federal" group structure.

Yesterday, Suchard conceded that it was left with only two alternatives. Mr Anderau said it would either have to raise its offer or sell its holding.

He declined to comment on reports that Suchard has been discussing participation in Cadbury Schweppes, the other UK confectionery and soft drinks group, or that it had been in contact with General Cinema (Coca Cola) of the US, which bought a 17.7 per cent stake in Cadbury last year.

With total sales of £8bn, the link-up between Rowntree and Nestlé would dislodge Mars, the private US company, as the largest chocolate confectionery company in the world, and Suchard as the largest in Europe.

Nestlé is advised by County NatWest; Rowntree by Shroders.

York's sweet sorrow

Continued from Page 1

effect on the city. We do not have a jobless problem at the moment but British Rail has plans to make more redundancies and if jobs do go at Rowntree, it will be a problem.

"However you cannot compete in an open market and not accept the rules of that market. Once the Government decided not to intervene, that was it."

Mr Lawrence Freeman, 25 years operating packaging machinery at the factory for Kit Kat, the chocolate bar, is rather more forthright. "Why should we be taken over by a foreign firm? And one from a country that isn't even in the Common Market."

Mr Stan Mainprize from the MSF union, which, along with the GMB and Apex represents most of Rowntree's workforce, said there was a lot of resentment and disappointment "that the Government didn't do anything to help us maintain our independence." But he said many of the workforce were reconciled to the change.

The big worry is jobs. "Their factories are bigger than ours with only half the workforce," said Mr Andrew Moore, a machine operator. "The big machines do it all."

Mr Jack Broomhead, 15 years in the cream room where the centres are covered in chocolate, sees it differently. "The firm has stood still. We need new markets. I would like to see a shake-up."

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	26	79	Dubrovnik	S	25	77	Malta	S	28	82	Rhodes	S	26	79
Algiers	C	26	79	Edinburgh	S	16	61	Manchester	S	18	64	Rio de Jo	F	27	80
Amsterdam	C	18	64	Faro	F	23	73	Manila	C	32	90	Rome	S	25	77
Athens	C	30	86	Florence	S	29	84	Melbourne	-	-	-	Salzburg	C	12	54
Bahrain	F	38	100	Frankfurt	S	18	64	Mexico City	C	24	75	San Francisco	F	13	55
Bangkok	F	35	95	Funchal	C	20	68	Miami	C	29	85	Seoul	F	27	81
Barcelona	T	22	72	Geneva	S	24	75	Milan	S	27	81	Singapore	C	32	90
Beirut	F	26	79	Gibraltar	S	25	77	Montreal	C	12	54	Stockholm	F	22	72
Belfast	F	17	63	Glasgow	S	18	64	Moscow	C	25	77	Strasbourg	S	19	66
Belgrade	F	25	77	Guernsey	S	19	66	Munich	S	14	57	Sydney	R	16	61
Berlin	R	18	64	Helsinki	S	25	77	Nairobi	F	22	72	Taipei	F	33	91
Biarritz	C	23	73	H. Kong	R	30	86	Naples	S	29	84	Tangier	F	24	75
[illegible]	[illegible]	[illegible]	-	Innsbruck	S	16	61	Nassau	C	32	90	Tel Aviv	C	26	79
Bordeaux	S	[illegible]	[illegible]	Inverness	S	18	64	New Delhi	C	35	95	Tenerife	F	23	73
Brussels	C	21	70	Islamabad	F	36	96	New York	F	37	99	Tokyo	C	27	81
Budapest	C	19	66	Istanbul	C	24	75	Nice	S	24	75	Toronto	S	16	61
B. Aires	F	20	68	Jakarta	C	33	91	Nicosia	F	37	99	Tunis	S	32	90
Cairo	F	33	91	Jersey	S	21	70	Oporto	F	22	72	Valencia	S	27	81
Cape Town	-	-	-	Jo'burg	F	27	81	Oslo	F	26	79	Venice	F	25	77
Caracas	R	29	[illegible]	Lima	C	18	64	Paris	F	21	70	Vienna	F	17	63
Casablanca	S	23	73	Lisbon	F	21	70	Peking	-	-	-	Warsaw	C	15	59
Chicago	S	20	68	London	S	22	72	Prague	R	10	50	Washington	S	28	82
Cologne	F	16	61	Los Angeles	S	24	75	Reykjavik	R	8	46	Zurich	F	18	64
Copenhagen	F	19	66	Luxembourg	S	15	59								
Corfu	S	28	82	Madrid	F	[illegible]	[illegible]								
Dallas	S	22	72	Majorca	F	30	86								
Dublin	S	21	70	Malaga	F	29	84								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Egypt seeks soft IMF terms

BY TONY WALKER IN CAIRO

EGYPT is pressing the International Monetary Fund (IMF) to agree to a new economic reform programme on soft terms amid signs that the country is again facing serious balance of payments problems.

Egyptian officials, who have been holding talks this week with senior IMF representatives, say a worrying surge in prices – inflation is estimated to be about 30 per cent – is placing severe political constraints on proposed reforms, including a reduction in subsidies.

These officials argue that any IMF programme requiring a substantial cut in the budget deficit would add to pressures on prices, thereby risking a repeat of the 1977 food price riots, in which 79 people died.

In a revised economic programme which the Egyptians are planning to put to the IMF, they are likely to propose liberal performance targets for reducing the deficit, raising energy and food prices, and instituting further exchange rate reform.

The IMF, which has been urging Egypt to speed up its reforms, is not likely to be impressed. A consensus emerged in May, at a meeting of the IMF Executive Board in Washington, in favour of a stronger IMF programme to pave the way for a second Paris Club rescheduling of Egypt's government-guaranteed debt.

Eighteen creditor nations agreed in May 1987 to reschedule $8bn of Egypt's debt on standard 10-year terms, which includes a five-year grace period on payment of principal. The rescheduling covered arrears plus payments falling due between January 1987 and June 1988.

SECTION II – COMPANIES AND MARKETS

FINANCIAL TIMES

Friday June 24 1988

US paper group may go private in $3bn deal

By Our New York and Financial Staff

SHARES IN Fort Howard, the US paper company which is considering taking itself private in a leveraged buyout, slipped in morning trading yesterday as analysts weighed up the chances of a potential $3.3bn deal going through.

At lunchtime, Fort Howard's stock had fallen $1¼ to $47⅛, valuing the Wisconsin-based group at $3.16bn.

On Wednasday it had jumped $8½ to $48⅜ following the company's announcement that some managers intend to develop a proposal for a leveraged buyout.

The announcement was not completely surprising, some analysts said. But Mr George Adler of Smith Barney said a leveraged buyout involving a big debt appears to run contrary to the conservative style of Mr Paul Schierl, Fort Howard chairman.

"There must be something going on to drive him to that," he added.

Analysts suggested valnes on a possible buyout at about $50 a share, which would make the value of sucb a deal above $3.35bn based on slightly more than 67m Fort Howard shares outstanding.

Mr Timothy Burns, analyst for Prescott Ball of Cleveland, said: "I think it's an astute move. The stock was at or near its low of $33 a little over two weeks ago and was back at $40 with the recent market strength because diehard Fort Howard fans saw value."

Fort Howard leads the market for disposable cups and plates. It bas long been admired on Wall Street for its consistent – if unspectacular – earnings record. But for a slip in 1986, caused by increased competition in the cup business, Fort Howard has raised earnings every quarter since the early 1970s.

James Buchan and **John Wicks** look at the background to a Swiss foray into the US heart care market

Sulzer seeks to set pace with Intermedics purchase

LAST WEEK, Sulzer Brothers of Switzerland agreed to pay $800m for Intermedics, a Texas medical supply company. At first sight, it seemed an odd deal.

The US company, which is based in Angleton near Houston, derives two-thirds of its business from making beart pacemakers, a market which peaked in the US in 1982 and has declined nearly 20 per cent since then – and Intermedics' share with it.

Five years ago, the company was party to no fewer than 65 lawsuits, one of which could cost tbe new owners np to $100m. Three years ago, Intermedics defaulted on a loan and almost went into bankruptcy.

"I think," says Mr Joel Lnton, a Texas stockbroker, "that Intermedics got one hell of a price for the company."

Bnt a closer look at Intermedics suggests that the venerable Swiss company, which makes textile machinery and process plant as well as artificial joints, may not have been quite as generous as it seems. Since Mr Richard Gilleland took over as chief executive of Intermedics two years ago, the troubled company has been brought back to profit.

The US pacemaker market has stabilised, with Intermedics at number three behind Medtronic, which invented the business of pacemakers, and Siemens of West Germany. Intermedics' second-string business of making artificial hips and knees is showing strong growth. After reporting $20.6m in net income on sales of $193.3m in the year ended October, it was poised to reap further benefits this year and paid its first dividend last quarter.

But a group of big and impatient sbareholders, led by Mr Tony Cilluffo, a New York investor, effectively obliged Mr Gilleland and other directors to sell the company by soliciting offers for their 25 per cent holding in the spring. "Anybody buying 25 per cent was going to buy more. Their actions limited our options," said Mr Ted Swift, a vice-president at Intermedics.

Mr Gilleland, who took over in August 1986, is an experienced manager who began his career with American Hospital Supply and then ran Colgate-Palmolive's medical supply business, Kendall McGaw. On joining Intermedics, he found it was in a mess.

Intermedics, wbicb was launched in 1973, had strayed from its core businesses by buying into such ventures as swimming-pool filters. Litigation costs were taking up a big percentage of sales and the company lost $19.7m in 1985. Above all, the company had not adjusted to the drastic change in the medical-supply market caused by Wasbington's desperate drive to cut costs at its health insurance system for old people, Medicare.

Pacemakers are tiny electrical devices first developed in the late 1950s to prevent complications arising from slow heartbeat. Because these conditions mostly affect patients over 65, Medicare picked np the bill for two-thirds of all pacemaker implants. Up to 1983, the manufacturers had no need to compete on price.

But that year, with the cost of an implant up to $10,000 per patient and widespread reports of corruption and kickbacks to doctors, Medicare announced strict new conditions for funding the operation. The market, which was 127,000 units in 1982, tumbled and was down to 105,000 by last year, for a value of about $450m.

Mr Gilleland took the company in hand, cutting 10 per cent of its workforce, selling off the peripheral businesses and settling the lawsuits. According to Mr Swift, there are less than 10 outstanding. Among these is a patent infringement suit by Medtronic, which has the largest share with 43 per cent of the US market.

A court-appointed fact-finder or master will later this summer recommend the level of damages to be paid to Medtronic, based on the profits Medtronic would have enjoyed without tbe infringement. Intermedics has set aside litigation reserves of $28m but according to Mr Luton, wbo is an analyst at the Dallas stockbroking firm, Rauscher Pierce Refsnes, the cost of tbe Medtronic suit could be $60m-100m.

"The deal is not contingent on that, which is kind of strange to me," he said. But Mr John Jacox, a senior vice-president at Sulzer Brothers Inc in New York, said: "Wa took our chances."

Meanwhile, the US pacemaker market is poised to show some modest growth. Intermedics itself believes that this year could see some 106,000 units. New technology for treating fast (rather than slow) beartbeat could open up another $500m market, according to Mr Luton.

And Intermedics, whose US share has fallen to 18 per cent, may be able to recapture husiness lost to Medtronic, which has introduced a new generation of pacemakers tbat respond to changes in the patient's heartbeat. Intermedics' "rate-responsive" pacemaker, called Nova MR, is in clinical trials.

Mr Othmar Hegi, executive vice-president of Sulzer Brothers in Winterthur, Switzerland, says: "Their technology is excellent and we are enthusiastic about their state of the art products."

The acquisition of Intermedics also marks a strategic development for Sulzer Brothers. According to Mr Hegi, tbe deal will allow the company to create a core business out of medical engineering with annual sales of over SFr500m ($340m) by 1992. It will double the group's US turnover this year to over SFr600m.

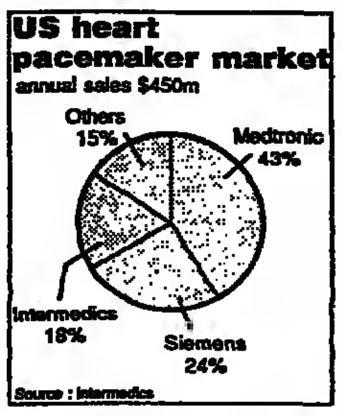
The Swiss company entered the medical engineering market some 25 years ago as a manufactnrer of artificial orthopaedic implants. Last year, the company bought majority shareholdings in the West German surgical instruments company, Bauer + Haeselbarth; Techmedica of California, which is the leading US maker of custom-made implants; and Hirayama Manufacturing of Tokyo,which is active in both medical engineering and biotechnology.

In 1987, new orders for medical engineering products rose 60 per cent and Sulzer Brothers established a separate product group for the business. This year, sales are expected to be some SFr120m, even before a contribution from Intermedics. Sulzer Brothers also bopes to use Intermedics as a marketing and distribution channel for its own artificial joints.

INTERMEDICS' FIVE-YEAR RECORD ($m)

Year*	Sales	Operating profit	Net income	Year-end assets
1983	206	11.8	(9.5)	188
1984	210	17.3	3.2	191
1985	218	12.2	(18.7)	186
1986	178	25.0	(17.7)	175
1987	193	43.7	20.6	187

* Ends October 31



LTV wins court victory

BY JAMES BUCHAN IN NEW YORK

LTV, the US steel, energy and industrial group, has scored a victory in its attempt to emerge from bankruptcy, with the ruling by a federal jndge that it did not have to pay its pensioners more than $2bn.

Judge Robert Sweet ruled in a US district court in New York that Washington cannot force the bankrupt company to take back $2.2bn in pension obligations just because it seems to be in better financial shape.

The ruling will oblige the Federal Pension Benefit Guaranty Board, which in September tried to force LTV to take responsibility for its steel pension schemes, to go through the time-consuming process of establishing in court whether LTV can pay.

"The PGBC is now considering other legal steps to resolve the issues of this case and relieve the nncertainties faced by retirees," the agency said yesterday.

LTV entered Chapter 11 of the Bankruptcy Code last July

But when a new labour agreement restored some benefits to workers, the guaranty board claimed LTV was taking unfair advantage of federal funds and sent back the pension schemes.

Harris buyout 'planned'

BY MAGGIE URRY IN LONDON

SIR PHIL HARRIS, chairman of Harris Queensway, the UK carpet and furniture retailer, yesterday said he and some of the management team were looking at a management buyout, working with S.G. Warburg, the merchant bank.

"Because of the sensitivity of this matter I am unable to say any more at this time," Sir Phil said, after making the announcement at the group's *annual meeting in Orpington,* Kent. He refused to be drawn on the question of price.

Harris Queensway shares added 5p to 161p yesterday, valuing the group at £378.6m ($673m).

The news further complicates a tangled tale and one which shareholders in Harris Queensway appear increasingly anxious to see ended. The company, which reported a sharp fall in profits in the year to January, is already discussing a proposed leveraged bid from a consortium.

Mr James Gulliver, head of the consortium, said separately that it was optimistic that it would secure Harris' Queensway's recommendation

BCE agrees printing deal

BY OUR MONTREAL CORRESPONDENT

BCE, Canada's largest bolding company, will take a 21 per cent equity interest in Quebecor, the Montreal-based publishing, printing and newsprint group, in return for selling it most of the BCE printing activities for C$185m (US$153m) in Quebecor stock and notes.

BCE, Canada's most widely-held corporation, is parent of Bell Canada, Northern Telecom, TransCanada PipeLines and many other companies and last year earned more than C$1bn on revenues of C$15bn.

BCE moved into printing in 1979-80 during a big realignment in Canadian publishing and printing. It has since expanded its printing interests in Canada and the US, hnt the field is becoming fiercely competitive.

Quebecor, founded by Mr Pierre Peladeau, its president and chief executive, is Quebec's largest newspaper publisher besides being a major printer and holding joint control of the Donohue newsprint group

By buying BCE printing plants, with annual sales of abont C$450m, Quebecor becomes the country's largest printer, bolsters its market share in Ontario and farther west,

Noranda to bid for stake in nickel group

By Robert Gibbens in Montreal

NORANDA, Canada's largest resource group, has joined the bidding for Placer Dome's direct 25 per cent interest in Falconbridge, the nickel prodncer. The stake is wortb nearly C$600m (US$496m) at current market prices.

Placer Dome, a leading Canadian and international gold mining group, pnt the Falconbridge hlock np for sale more than a month ago. It said it would use the proceeds to develop new mines and gave prospective bidders until 5pm yesterday to snbmit offers. Placer Dome wanted to complete the sale by mid-July, bnt yesterday extended the deadline for bids until June 29.

Noranda said it was interested in the Falconbridge block at a price. It has asked the Ontario Secnrities Commission for an exemption from having to make a follow-up offer to other Falconbridge holders if its price for the Placer Dome block is more than 15 per cent above the prevailing market level.

Noranda said this was a defensive move, since Falconbridge itself had also sought such an exemption.

Mr William James, Falconbridge president, earlier this week said Falconbridge would seek to buy back the Placer Dome block itself along with Placer Dome's 53 per cent controlling stake in Mcfntyre Mines, the western Canadian coal prodncer.

● Amca International, one of Canadian Pacific's remaining problem subsidiaries, is to hang on to Bomag, its West German road-building equipment affiliate, because it cannot get any attractive offers.

Amca put Bomag on the block several months ago as part of its broad international restructuring.

All of these securities having been sold, this announcement appears as a matter of record only.

ALLIANCE LEICESTER

Alliance & Leicester Building Society

Japanese Yen 10,000,000,000

Floating Rate Notes due 1993

Issue Price: 100 per cent.

Mitsui Finance International Limited

Baring Brothers & Co., Limited — **The Nikko Securities Co., (Europe) Ltd.**

Nomura International Limited — **Sanyo International Limited**

Yamatane Securities (Europe) Limited

June, 1988

This announcement appears as a matter of record only. The Notes have not been registered for offer or sale in the United States. Offers and sales of the Notes in the United States or to United States nationals or residents might constitute a violation of United States law if made prior to the ninetieth day after determination that the distribution has been completed.

Kimberly-Clark Corporation

U.S. $100,000,000

9¾% Notes due June 15, 1995

Goldman Sachs International Corp. — **Salomon Brothers International Limited**

Banque Bruxelles Lambert S.A. — **BNP Capital Markets Limited**

Barclays De Zoete Wedd Limited — **Chemsecurities Ltd.**

Daiwa Europe Limited — **Deutsche Bank Capital Markets Limited**

IBJ International Limited — **J.P. Morgan Securities Ltd.**

Sumitomo Finance International — **SBCI Swiss Bank Corporation Investment banking**

Union Bank of Switzerland (Securities) Limited — **Yasuda Trust Europe Limited**

June, 1988

United Kingdom

U.S.$4,000,000,000

Floating Rate Notes Due 1996

In accordance with the provisions of the Notes, notice is hereby given that, for the three month period 24th June, 1988 to 26th September, 1988, the Notes will bear interest at the rate of 7½ per cent. per annum. Coupon No.8 will therefore be payable on 26th September, 1988, at the rate of US$9,791.67 from Notes of US$500,000 nominal and US$195.83 from Notes of US$10,000 nominal.

S.G. Warburg & Co. Ltd.

Agent Bank

£50,000,000

ALL NIPPON AIRWAYS CO., LTD.

(Zen Nippon Kuyu Kabushiki Kaisha)

GUARANTEED FLOATING RATE NOTES DUE 1991

Unconditionally and irrevocably guaranteed as to payment of principal and interest by The Long-Term Credit Bank of Japan, Limited

Notice is hereby given that the Rate of Interest has been fixed at 9.25% p.a. and that the interest payable on the relevant Interest Payment Date, September 23, 1988 against Coupon No. 15 in respect of £5,000 nominal of the Notes will be £116.26.

June 24, 1988, London
By: Citibank, N.A. (CSSI Dept), Agent Bank — CITIBANK

INTL. COMPANIES AND FINANCE

Board lukewarm on Krupp performance

BY DAVID GOODHART IN BONN

THE SUPERVISORY board of Fried Krupp, the West German steel and industrial group, has refused to endorse fully management's performance last year because of losses in Krupp Industrietechnick, the plant construction subsidiary.

Such openly critical behaviour by a supervisory board is unusual in Germany and has led to speculation that Mr Wilhelm Scheider, the chairman of the management board, may be replaced.

Ooe obvious candidate would be Mr Gerhard Cromme, chairman of Krupp Stahl, but his appointment would almost certainly be blocked by union representatives.

Krupp's net profits slipped to about DM40m ($22.8m) last year, down from DM126m, and plant construction is thought to be responsible with a loss of over DM100m. A commission of experts will examine what went wrong.

Krupp Stahl, the steel subsidiary, also came in for criticism yesterday for poor handling of the closure of the company's big steelworks at Rheinhausen. Speaking at the annual meeting of the company, Mr Kurt Fiebich, representing small shareholders, accused the management of "unbelievable dilettantism."

The main shareholders in the Fried Krupp group are the Iranian Government, which still owns 25 per cent, and a Krupp foundation, which owns about 70 per cent.

Mr Cromme reported that, thanks to the surprising buoyancy of world demand for steel, all parts of Krupp Stahl were making money. He added, however, that West Germany would need to continue to reduce its steel output from the current 37m tonnes a year to more like 30m by the year 2000.

Krupp Stahl had decided to take steps to improve efficiency and earnings following a drop in profits to DM5m from DM71m in 1986. Mr Cromme hoped the measures would enable Krupp Stahl to pay a dividend once again, although he did not specify exactly when this might occur.

Bayer and BASF report strong opening to year

BY OUR FINANCIAL STAFF

BAYER and BASF, two of the big three West German chemicals groups, report good progress in the opening months of this year.

BASF expects business activity to remain at a high level during 1988 after a good first half. Bayer suggested that profits would rise strongly.

Mr Hans Albers, the BASF management hoard chairman, told the annual shareholders meeting that group turnover was likely to rise by 6 per cent to around DM21.3bn ($12.1bn) during the six months ending in June 1988.

"The development of orders on hand clearly signals a continuation of this trend . . . at least in the next few months," he said.

In 1987, BASF made record net profits of DM1.05bn on turnover of DM40.24bn.

In the first 1988 quarter, group profit before income tax rose 7.5 per cent to DM720m compared with the same period last year. Turnover rose to DM10.54bn, also a gain of 7.5 per cent.

Mr Albers said with the exception of the oil and gas business, all sectors and geographical regions contributed to the rise in turnover.

Dye-stuffs and finishing products, as well as chemicals and plastics, were particularly successful.

Bayer said group sales rose by 5 per cent in the first five months of 1988. According to Mr Hermann Strenger, the chairman, profit has continued to rise sharply.

He said the profit trend from the first quarter, when pre-tax earnings rose 11 per cent from a year earlier, has continued.

Sales rose to DM16.6bn in the January-May period from DM15.6bn. Mr Strenger expected slightly higher turnover for the year.

He said that full-year net earnings would at least match the 1987 result of DM1.54bn.

Storebrand posts further decline for first quarter

BY KAREN FOSSLI IN OSLO

STOREBRAND, Norway's largest insurance and financial group which fell into the red for the first time in 1987, reports further slow results for the first four months of 1988.

Operating profits in the four months dipped to NKr55m ($8.7m) from NKr58m in the previous year. The downturn stems mostly from losses in three of the group's four subsidiaries.

The exception was Storebrand International, which improved operating results by NKr49m to NKr141m following an increase in financial income.

Storebrand Forsikring cut its four-month lossea to NKr29m from NKr41m in the previous year. The loss was greater than expected largely as a result of poor returns from motor and business insurance.

Storebrand Finans showed operating losses of NKr41m in contrast to profits of NKr22m a year earlier. The subsidiary said it had implemented a programme aimed at improving its loan portfolio in the short term.

Storebrand expects a further deterioration of financial activities in Norway. The activities' scope has already been reduced and faces further major reductions in the future, the company said.

Atlas-Copco to buy Swedish tool maker

BY OUR STOCKHOLM STAFF

ATLAS-COPCO, the Swedish mining, construction and industrial equipment group, is to acquire Secoroc, a rock-drilling tool manufacturer with annual sales of SKr960m ($160m).

Secoroc is to be purchased from Industriförvaltnings Kinnevik, the industrial holding company. Completion of the deal is expected before the end of the year.

Secoroc's acquisition would add drill bits and rods to the range of rock-drilling equipment made by Atlas-Copco. The mining and construction equipment sales accounted for 40 per cent of last year's SKr12bn of group turnover.

Atlas-Copco markets drill bits made by Sandvik for its equipment. Atlas-Copco says its co-operation with Sandvik on the development and sale of rock-drilling tools will not be affected by its purchase of Secoroc, which will remain an independent company with its own marketing network.

Secoroc reported a profit after financial items of SKr78m in 1987. Last year, profits before extraordinary items at Atlas-Copco totalled SKr788m with the company taking in a first-time contribution from its $86m acquisition of Chicago Pneumatic of the US.

Atlas-Copco's earnings performance in the current year has remained impressive. First-half profits jumped by nearly a third to SKr248m, partly because of acquisitions but also on the back of a strong performance by the compressors division.

To the Holders of

Middletown Trust

10½% Notes Series A due 1993

NOTICE IS HEREBY GIVEN that, pursuant to Article Eleven of the *General Covenant*, for the Sinking Fund due July 15, 1988 U.S.$7,130,000 of the Notes will be redeemed at 100% of their principal amount plus accrued interest to July 15, 1988 when interest on the Notes redeemed shall cease to accrue. Following the above redemption, U.S.$48,580,000 Series A Notes, U.S.$102,885,000 10⅛% Notes Series B due 1998 and U.S.$37,205,000 11¼% Notes Series C due 2010 will remain outstanding.

The redemption price and accrued interest are payable against surrender of the Bearer Notes together with all coupons maturing subsequent to July 15, 1988 at the offices of the Paying Agents outside of the United States listed below:

The Chase Manhattan Bank, N.A., Woolgate House, Coleman Street, London EC2P 2HD, England.

Chase Manhattan Bank Luxembourg, S.A., 47 Boulevard Royal, Luxembourg Ville, Luxembourg.

Banque Bruxelles Lambert, Avenue Marnix 24, 1050 Brussels, Belgium.

Chase Manhattan Bank (Switzerland), Genferstrasse 24, 8027 Zurich, Switzerland.

The redemption price and accrued interest on the Registered Notes are payable at the office of the Registrar, Transfer Agent and Paying Agent, The Chase Manhattan Bank, N.A., Corporate Trust Administration, 1, New York Plaza, New York, New York 10081.

A further notice will be published specifying the serial numbers of the Bearer Notes called for redemption.

The Connecticut Bank and Trust Company
National Association as Trustee

Dated: June 24, 1988

ALLIANCE AND LEICESTER BUILDING SOCIETY

Japanese Yen 10,000,000,000
Floating Rate Notes due 1993

In accordance with the provisions of the Notes, notice is hereby given that for the six month period 23rd June 1988 to but excluding 23rd December 1988 the Notes will carry an interest rate of 4.95 per cent. per annum. The Coupon will be Japanese Yen 247.500 on the Notes of Japanese Yen 10.000.000. The relevant interest payment date will be 23rd December 1988.

Mitsui Finance Trust
International Limited
(Agent Bank)

BANCO DI ROMA
U.S.$200,000,000
Floating Rate Subordinated Loan Participation Certificates due 2001

Issued by Morgan Guaranty GmbH for the purpose of making a subordinated loan to Foreign Branches of Banco di Roma

In accordance with terms and conditions of the certificates the Rate of Interest for the Interest Determination period 24th June, 1988 to 28th December, 1988 has been fixed at 7.951875%.

Interest accrued for the above period and payable on 28th December, 1988 will amount to US$2,065.28 per US$50,000 Certificate and US$20,652.79 per US$500,000 Certificate.

Agent Bank:
Morgan Guaranty Trust Company of New York London Branch

Sparbankernas Bank
(Swedbank)

Japanese Yen 10,000,000,000

Floating Rate Notes due 1993

For the period 21st June 1988 to 21st December 1988 the rate has been fixed at 5.52 per cent per annum and interest payable 21st December 1988 for Coupon No. 1 will be Yen 2,760,000 per Yen 100,000,000.

The Industrial Bank of Japan, Ltd.
Agent Bank

Santa Barbara Savings
and Loan Association

(Incorporated under the laws of the State of California)

U.S. $400,000,000
Collateralized Floating Rate Notes
due September 1996

Notice is hereby given that the Rate of Interest has been fixed at 7.8125% p.a. and that the interest payable on the relevant Interest Payment Date, September 26, 1988 against Coupon No. 8 in respect of U.S.$100,000 nominal of the Notes will be U.S.$2,039.93.

June 24, 1988, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank — CITIBANK

INTL. COMPANIES AND FINANCE

Gordon Cramb on motives behind an Australian base metals merger

Zinc pair galvanised into action

CRA, THE Australian mining offshoot of Britain's RTZ, made clear this week that, in merging its zinc and lead operations with those of North Broken Hill, the two companies were responding to a series of global associations built up among other producers of base metals.

Their joint venture creates the world's largest single producer of zinc, putting into one business their workings at the Broken Hill orebody in New South Wales. It will have sales of more than A$1.5bn (US$1.23bn) and will contain all Australia's annual capacity for smelting zinc.

MIM Holdings, the main domestic competitor which operates deposits at Mount Isa in Queensland, exports its concentrate unrefined. MIM's evolving links, however, in a grouping with dominant suppliers of zinc in North America and Europe are seen as the chief spur for Wednesday's CRA/North deal.

This grouping, of which West Germany's Metallgesellschaft is the linchpin, is the most significant among a handful of associations within the zinc industry to have emerged in recent years.

Outright acquisitions have played little part, but a web of minority cross-shareholdings has brought several producers to a point where competitors, traders and consumers are becoming concerned that the availability and price of the metal might, by the 1990s, be subject to rather more supplier influence than in the past.

Links began to emerge as a strategy for the poor metal markets of the previous few years. Wednesday's CRA/North deal, by contrast, came on the day when sterling zinc prices in London reached a three-year high, having almost doubled since the start of the year.

None the less, the two companies are looking ahead to a time when these levels might not prevail – and, moreover, to the cost of expanding and upgrading existing facilities and bringing new ones onstream. The joint venture is to spend A$650m in this way over the next five years.

Mr Robin Bahr, of Rudolf Wolff in London, observes: "This is a trend towards agglomeration in an attempt to reduce operating costs, which may be followed by others. It is happening now because there are a lot of new mines being developed. If these costs can be shared by a number of companies, the benefit is obvious."

Mr Philip Crowson, RTZ chief economic adviser, points out that the only valid reason for the CRA/North merger is that it offers a very real opportunity for the companies to cut costs.

The deal in October 1986, in which Metallgesellschaft, MIM and Teck of Canada acquired between them 30 per cent of the Canadian producer Cominco and effectively took management control, might have acted as a catalyst, he acknowledges, but on its own would not have stimulated the Australian companies' merger.

Mr Crowson suggests that, as the CRA and North mines are on the same load they could be merged into one, with considerable savings. The cost of shipping concentrate and metal should also fall, particularly as most of the assets are in Australia. Further savings will come from rationalising sales forces.

CRA and North themselves say: "The merged company will be more capable of meeting competition in world markets and will be able to increase Australia's share of export markets in a way in which the individual companies could not."

Their merger will involve lead and zinc mining and smelting production facilities and international marketing activities. The companies will continue to market zinc separately to Australian domestic customers.

The venture will produce 380,000 tonnes a year of zinc concentrates, 250,000 tonnes of lead concentrates and 538,000 kg of silver in concentrates and lead bullion.

Output of zinc metal would be 530,000 tonnes, lead metal 300,000 tonnes and silver 236,000 kg.

In zinc, industry estimates of the group's market share for the non-communist world range to 10 per cent. Against this, the Cominco Metallgesellschaft MIM Teck grouping is said to be on target for a market influence of twice that.

This takes into account new facilities such as the 210,000 tonnes a year Red Dog operation on the Chukchi Sea coast in Alaska, 75 per cent owned by Cominco and due to start in 1989-90.

The London-based Metals & Minerals Research Services notes that the industry influence of the Metallgesellschaft, which is acquisition-keen, will grow anyway as those producers in which it has existing stakes increase capacity.

Other notable members of that family include Asarco in the US, Ruhrzink and Norddeutsche Affinerie (West Germany), Exminesa (Spain), Medimsa (Mexico) and in Australia Aberfoyle as well as MIM.

Separate combinations have emerged within the US and are developing too in Europe where Preussag of West Germany and France's Penarroya intend to put together their metal producing operations. Their objective is to cut costs and reduce smelter capacity to match the needs of the market.

Their plan arose from a wider set of discussions last year embracing Nordic and other European producers, which came to little because of an inability to agree on the then needed cuts in smelting capacity.

CRA/North is coming together at the best time in the zinc market for years, and cuts were not on its agenda this week. In Europe, as part of its investment plans, it will put A$25m each into the Avonmouth smelter at Bristol in the UK and the half-owned Budelco plant in the Netherlands.

Mr Stephen Briggs, an analyst at Shearson Lehman in London, is more cautious. He argues that in world terms the venture does not have great mines, either geologically or in terms of accessibility to markets, and at low prices the smelters have lost money.

"Everybody has been adding up what the combined group will make – but you can't necessarily assume it will stay at this size for ever," he says.

North Broken Hill has itself just undertaken a near-A$1bn merger with Peko-Wallsend, another Australian metals group, and an asset reshape of some sort had been foreseen. Out of the link merger with CRA, North alone can expect a guaranteed return: it is to receive a A$10m dividend payment this year.

BHP GOLD MINES EARNS A$20.7m

BHP GOLD Mines, the Australian producer spun off from Broken Hill Proprietary, achieved net profits of A$20.7m (US$16.9m) in its maiden 15 months to May, Our Financial Staff writes.

Gold production was 182,516 oz, 6 per cent above target and double the output of the previous year for the mines that formed the group.

No dividend is yet being paid.

NZFP merger delayed

BY DAI HAYWARD IN WELLINGTON

A CREDITOR who claims an ownership interest in 40m shares in NZ Forest Products now held by Rada Corporation, a New Zealand investment company hit by the market crash, has delayed the final move to merge NZFP with Elders Resources of Australia.

The 40m shares represent about 6 per cent of the capital of the reconstructed Elders Resources NZFP (ERN).

As part of the deal in which NZFP and Elders Resources were to merge, Rada was to sell 200m Forest Products shares to Elders IXL.

Citic sells 9.1% stake in Ka Wah to Chinese bank

BY KEVIN HAMLIN IN HONG KONG

CHINA INTERNATIONAL Trust and Investment Corporation (Citic), the Peking-backed finance group, has sold a 9.1 per cent stake in Hong Kong-based Ka Wah Bank to People's Construction Bank of China (PCBC) for HK$36m (US$4.6m).

Citic rescued Ka Wah from collapse in 1986 after it foundered with bad loans totalling abont HK$3bn. Citic then acquired a 92.4 per cent stake in exchange for a HK$350m capital injection.

Tha sale to PCBC was prompted by stock exchange regulations requiring 25 per cent of a listed company's shares to be in public hands. The exchange granted Citic a two-year waiver on this rule when it acquired Ka Wah.

PCBC paid HK$1.80 a share for its stake, a 3 per cent discount on the market price. Citic sold an identically priced 8.4 per cent stake to Tellon Development, another mainland-backed concern, in April.

UAE central bank delays licensing fees

By Robin Allen in Dubai

THE UNITED Arab Emirates' central bank has postponed the implementation of its proposal to charge annual licensing fees on all the country's commercial banks and financial institutions.

The postponement was announced in a circular sent to banks in advance of the annual meeting of the Emirates Bankers Association, where the subject was to have been discussed.

The association had resisted the move, partly because its members had not been consulted. It is not clear, however, whether the central bank's decision is temporary or indefinite.

Malaysian Airline lifts group income

By Our Financial Staff

MALAYSIAN AIRLINE System, the privatised flag carrier, lifted gronp net profits 35.1 per cent, to 151.6m ringgit (US$58.7m) from 112.2m ringgit, in the year to March.

Revennes rose 13.7 per cent to 1.58bn ringgit from 1.39bn ringgit. MAS said it expected to continne to do well in the current financial year, in view of the company's performance in the first two months and an *improvement in the country's* economic prospects.

The final dividend for the *latest period* is up at 12.5 cents against 10 cents.

Mitsukoshi shows strong advance

BY OUR FINANCIAL STAFF

MITSUKOSHI, THE luxury Japanese department store group, showed a strong advance in consolidated net profits to Y3.2bn ($24.8m) for its year to February, compared with just Y584m the previous year when special write-offs were incurred.

It expects a further improvement to Y4bn this year as sales grow to a forecast Y850bn. This would be 8.4 per cent up on the latest Y783.8bn annual revenues, itself a 7.3 per cent rise.

● On May 27 the Financial Times described Mitsukoshi as controlled by Mitsui, the trading house. Mitsukoshi points out that although it is part of the Mitsui group it is not controlled by Mitsui.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Anatole Kaletsky weighs up power balances on the US takeover scene

Wall St merger warriors in retreat

WHEN MR CARL ICAHN conceded defeat this week in his battle for the control of Texaco's boardroom, it was perhaps the end of an era.

The raiders have done as much as Reaganomics or the see-sawing dollar to transform the American business landscape in the 1980s – for better and for worse.

With Texaco, however, the turning point in the long war between the raiders and the US corporate establishment may have been reached. For Texaco was only the latest – and biggest – defeat for Wall Street's merger warriors after many years of triumphs.

In spite of the record-breaking pace of takeover activity this year, hostile bids and restructuring proposals have been meeting overwhelming resistance – not in the stock market itself but in the shareholders' meetings and proxy contests which have become the main battlegrounds for the merger wars.

For example, in the last two months Gillette has beaten a challenge by Coniston Partners, Irving Bank has beaten Bank of New York, Media General has beaten Mr Burt Sugarman, and USG has beaten Desert Partners. Indeed, the anti-management factions have yet to win a single major proxy fight this year.

But why are these shareholder votes suddenly so important? What has happened to the cash tender offers with which bidders used to sweep companies effortlessly from under their managements' feet?

A large part of the answer lies in a series of state anti-takeover statutes, which culminated in early February with a law passed in the state of Delaware. This legislation has made it harder to mount hostile takeover bids against most US companies.

The Delaware law alone covers 45 per cent of the companies listed on the New York Stock Exchange, which (like Texaco) are registered in Delaware.

The state anti-takeover laws have been vehemently opposed by the Securities & Exchange Commission, denounced by investment bankers and ridiculed by lawyers who have described them as meaningless and ineffective. The fact is, however, that in the last few months they have contributed to a dramatic change in the tactics of takeover battles – a change which has brought one unexpected defeat after another to hostile takeover bidders.

Essentially, the takeover laws have made it impossible to acquire a company against the wishes of its directors simply by buying up 51 per cent of its shares. The precise type of obstacle varies from state to state, but the Delaware approach is typical.

It says that a person who accumulates 15 per cent of a company's shares without the directors' approval must immediately raise his stake to 85 per cent or accept a three-year prohibition against a merger.

Even if the bidder gradually acquires 99 per cent of shares in a company during those three years, he must continue to operate it as an independent legal entity – the most important implication of this being that he cannot consolidate its operations with another company, or readily dispose of assets.

This law explains why Mr Icahn, for instance, was unable to raise his stake in Texaco above 14.9 per cent and why he was so eager to have himself elected to the board. Once a director, he would have tried to overturn the board's objections to an offer and thus negate the operations of the takeover law.

The Delaware law and similar, frequently tougher, measures in other states have had a further, indirect deterrent effect. By surviving court challenges from hostile bidders and the SEC, the state laws have probably conferred some judicial respectability on the poison pill arrangements which most US companies have instituted to make hostile bids prohibitively expensive.

These obstacles explain why proxy fights and board elections, rather than simple cash tender offers, have recently become the most important contests in big takeover battles. They account for the sudden elevation of the previously seedy profession of proxy solicitor to one of the glamour businesses of Wall Street.

The legal changes do not, however, explain the central paradox of the recent proxy battles. How is it that shareholders, previously all too willing to sell out to the highest bidder, are now frequently backing management and thwarting high-priced offers and restructuring proposals?

How is it that shareholders, once willing to sell to the highest bidder, are now backing management and thwarting high-priced offers?

Carl Icahn: unable to increase stake in Texaco

As the Texaco affair demonstrated, there are some not very creditable reasons why management may have a built-in advantage in a proxy fights.

The shareholders entitled to vote in board elections and proxy fights are those on a company's register, not those who happen to own the shares when the votes are cast.

In the case of Texaco, the *record date for the company register* was two months before the board election. This enabled Kohlberg Kravis Roberts, for example, to vote their 4.9 per cent holding in Texaco in favour of management, even after they had discreetly sold their shares.

To rub salt into the arbitrageurs' wounds, KKR was able to sell its shares, knowing full well that it was about to cast the decisive vote against Mr Icahn. As a result, KKR was simultaneously able to benefit from the Icahn premium in Texaco's share price and satisfy its conscience by supporting managements.

A second reason why proxy fights are tilted in incumbent management's favour is even simpler. When an investor sells his shares to a raider, he can forget about the company's performance from that moment on. But when he votes for a board of directors, he has to bear in mind the possibility that a raider's presence will disrupt the company's management.

When, as in the case of Texaco, there is no cast-iron guarantee that an attractive takeover bid will materialise, this can be a big deterrent to ousting an incumbent board.

There are, however, some more positive reasons why incumbent managements seem to do so much better in proxy fights than tender offers.

Many institutions will sell their stock to a raider but will not support him in a voting contest because their selling is motivated less by greed than by fear.

The fears are twofold. Like everybody else involved in US business, fund managers are terrified of being sued. The idea that failing to sell to the highest bidder could be a breach of fiduciary duty is almost certainly a powerful motivation for some fund managers and trustees.

Matters have been made much worse by the Employees Retirement Income Securities Act (Erisa), which under certain circumstances imposed personal liability on pensions trustees for investment misjudgments. Nobody is going to sue a fund manager, on the other hand, for exercising his judgment about the people who sit on a company's board.

The second fear American institutions face in some tender offers is more tangible. If the offer attracts less than 100 per cent of the shares, there is no guarantee that the minority will be offered the same terms in a subsequent merger.

Such "two-step" takeovers have long been denounced by most of Wall Street as "abusive" tactics, but they have continued to be used by US raiders.

Finally, of course, there is the most positive reason of all. In a proxy battle, as in any democratic process, shareholders can act with a degree of altruism and vision which may not be typical in their short-term financial transactions.

Of course, nobody knows whether hostile takeovers will end up making the US economically weaker or stronger. What can be said for certain is that anti-takeover laws, poison pills and proxy fights have given companies which come under attack a chance to persuade their shareholders that they should have a chance of independent survival – and to use reason, as well as money, in this debate.

Nomura in move on insider dealing

By Stefan Wagstyl in Tokyo

NOMURA SECURITIES, the world's largest stockbroker, is building a Chinese wall down the middle of its key corporate division, which handles relations with its important industrial clients, following the enactment of tough new laws on insider trading.

The reorganisation is the most radical step taken so far by a Japanese securities house in response to complaints from foreign financial companies that insider dealing is rife in Tokyo.

Nomura intends to split the corporate division in two: one side will handle business connected with primary market activities – namely raising funds on clients' behalf - while the other will deal with broking stocks for clients.

The company already has separate divisions for broking and fund-raising activities – but the corporate division is responsible for co-ordinating relations.

Daiwa, the second of Japan's Big Four securities companies, said yesterday it might consider similar moves. Nikko and Yamaichi, the others, said they were studying various measures.

Daiwa said that it had already moved out of its head office building (where the broking business is carried out) divisions involved with market-sensitive information – including underwriting, and mergers and acquisitions.

The Japanese Diet (parliament) recently approved insider trading laws which will come into effect in December. These define more precisely what constitutes inside information and who may be accused of misusing it.

The introduction of the law followed intense pressure from companies in the UK and the US which argued that the globalisation of markets put the onus on Tokyo to raise its standards to Western levels.

Concern inside Japan also increased after an incident in which the lead banker to Tateho Chemical, a chemicals company, *last year sold shares* in its client just before Tateho announced heavy losses on trading bond futures.

Foreign brokers have remained sceptical about the impact of the new laws and of the Japanese brokers' measures to abide by them. They claim that the Japanese attitude to market-sensitive information is less rigid than that in Britain and America.

"Things will only change when a big broker gets caught and punished," said one foreign securities broker.

Dresdner Bank buys Veba fibre subsidiary

By Haig Simonian in Frankfurt

VEBA, THE West German energy and chemicals conglomerate, has sold Norddeutsche Faserwerk, its fibre manufacturing subsidiary based at Neumünster in north Germany, to Dresdner Bank.

The surprise move follows the failure of a planned sale to ICI earlier this year after objections from the German cartel office on monopoly grounds. Together, Deutsche ICI and Deutsche Rhodia, the German subsidiary of Rhône-Poulenc, have 75 per cent of the German fibres market, while Norddeutsche Faserwerk has about 17 per cent.

The company, which had sales last year of DM264m ($149.1m), produced 31,500 tonnes of synthetic filament yarns, carpet and textile fibres, which it mainly sells in Western Europe. It employs about 1,300 people.

In May, ICI said it was "still talking" to Veba about a possible sale, despite the cartel office's negative decision. Those talks have clearly proved fruitless.

Quite what Dresdner Bank plans to do with Norddeutsche Faserwerk remains unclear. German banks often buy companies for subsequent flotation on the stock exchange, but such a course of action seems unlikely in the present circumstances.

The bank says it hopes place the company quickly and use its existing strengths to develop its position and preserve jobs.

Dai-Ichi Kangyo plans NY office

DAI-ICHI KANGYO Bank, Japan's and the world's largest commercial bank, has applied for approval to set up a finance company in New York to help expand its business in the US, Reuter reports from Tokyo.

The company, to be named DKB Credit Corp, will seek to increase the bank's lending to medium-sized companies. It hopes for permission from the Federal Reserve Board by August.

Heavy flow of new issues reflects dollar buoyancy

BY DOMINIQUE JACKSON

EURODOLLAR BONDS extended recent gains yesterday, propelled by the continued rally in the US Treasury market. Sentiment was buoyed by the dollar's strong performance on the foreign exchanges and an encouraging downward revision to US first-quarter GNP data.

The firmer tone prompted a further three new dollar straight issues, taking the total issued so far this week to almost $1bn. Continued strong Japanese demand is reported for new dollar-denominated paper while syndicate managers said the return, in force, of international retail investors was providing strong support. Elsewhere, the primary market was quiet although a new Eurosterling convertible issue was launched.

The majority of Eurobond market sectors were lifted by the US Treasury rally, although sterling-denominated bonds turned narrowly easier as prices consolidated following Wednesday's base-rate rise. Dealers said the easier tone to the gilt-edged market was largely futures-led.

Baring Brothers reopened the Eurosterling convertible market with a £75m subordinated deal for Harrisons & Crosfield, the chemicals to plantations conglomerate, which on Wednesday announced plans to acquire the timber business of Magnet, the kitchen and bedroom furniture group. The proceeds of the bond issue will be used to help fund the £83.3m purchase.

The coupon on the 15-year issue is indicated at 7¼ per cent and the conversion premium at 10 per cent. The bond has a call option but does not feature the option of an investor put – one optional extra which has been considered indispensable on the majority of recent convertible issues, particularly since last October's stock market crash.

Many investors have been wary of buying convertible issues which do not offer them the added safeguard of a put, giving the right to return the bonds to the borrower. However, the lead manager said a put option had been ruled out because recent experience had shown that its inclusion seldom worked to the advantage of the issuing company.

Harrisons & Crosfield has a strong profile in the Far East where its original core plantations business remains. The group has been steadily diversifying, however, into areas such as chemicals, agriculture, timber and building products. The acquisition of Magnet's timber concerns will double H&C's existing timber and building supplies businesses, taking it to third position in the UK.

Far Eastern demand, where investors are more accustomed to a lower coupon and conversion premium, was expected to be the driving force behind this issue, although the lead manager said interest had also been shown by UK institutions and Continental investors.

INTERNATIONAL BONDS

The terms of the deal were deemed on the tight side, given the relatively long maturity of the bond and the absence of a put option. However, the issue was seeing steady demand yesterday and was bid at 99% against its par issue price.

In the Eurodollar sector, IBJ International was the lead manager on a $150m six-year deal for Austria at 9⅛ per cent and 101¼, which was launched at a margin of 44 basis points (hundredths of a percentage point) over the interpolated appropriate US Treasury issues.

The deal was sold into a rising market and saw good demand from the Continent as well as from London-based Japanese accounts. Austria remains a popular borrower and the deal was well bid at a discount of 1.65, comfortably within its 1⅞ fees.

While the Austria deal appeared to mark a return to more conventional Eurobond offerings, the steady stream of largely pre-sold or specifically targetted issues showed no signs of letting up yesterday.

Yamaichi International brought two dollar straight deals for Scandinavian banks: a $50m five-year deal at 9⅛ per cent and 101⅛ for Bergen Bank and a $50m five-year issue at 9⅛ per cent and 101⅛ for PK Banken. The lead manager said the deals had been substantially pre-sold, although not necessarily to Japanese accounts, and were not expected to trade very widely.

One of Wednesday's successful deals, a Canadian dollar issue for Bell Canada, was increased to C$150m from the original issue amount of C$125m due to investor demand, lead manager UBS Securities said.

In West Germany, domestic government bonds opened mixed but improved gradually to finish between ¼ and ½ point firmer on reasonable volume.

Dealers were divided as to whether the stronger tone was merely due to the US Treasury rally or to speculative trading on potential currency gains in the event of the Bundesbank moving, as is rumoured, to raise the discount rate at next Thursday's council meeting. Euromark prices finished unchanged to marginally easier, depressed by the stronger US dollar.

Wednesday's DM200m issue for Saint Gobain was bid at a discount of 1.70 against total 2 per cent fees.

In Switzerland, activity was muted and bond prices finished the day narrowly mixed. Dealers said trading was already being affected by the summer holiday exodus.

A SFr100m 10-year deal for Oesterreichische Draukraftwerke, trading for the first time, closed the day at 99, compared with a 101⅜ issue price. A recent issue for a subsidiary of Italy's CIR, which is convertible into ordinary shares of Olivetti, was increased yesterday to a total of SFr125m, from the original SFr100m amount.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on June 23

US DOLLAR STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Average price change... On day +0 on week +0

DEUTSCHE MARK STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES

	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

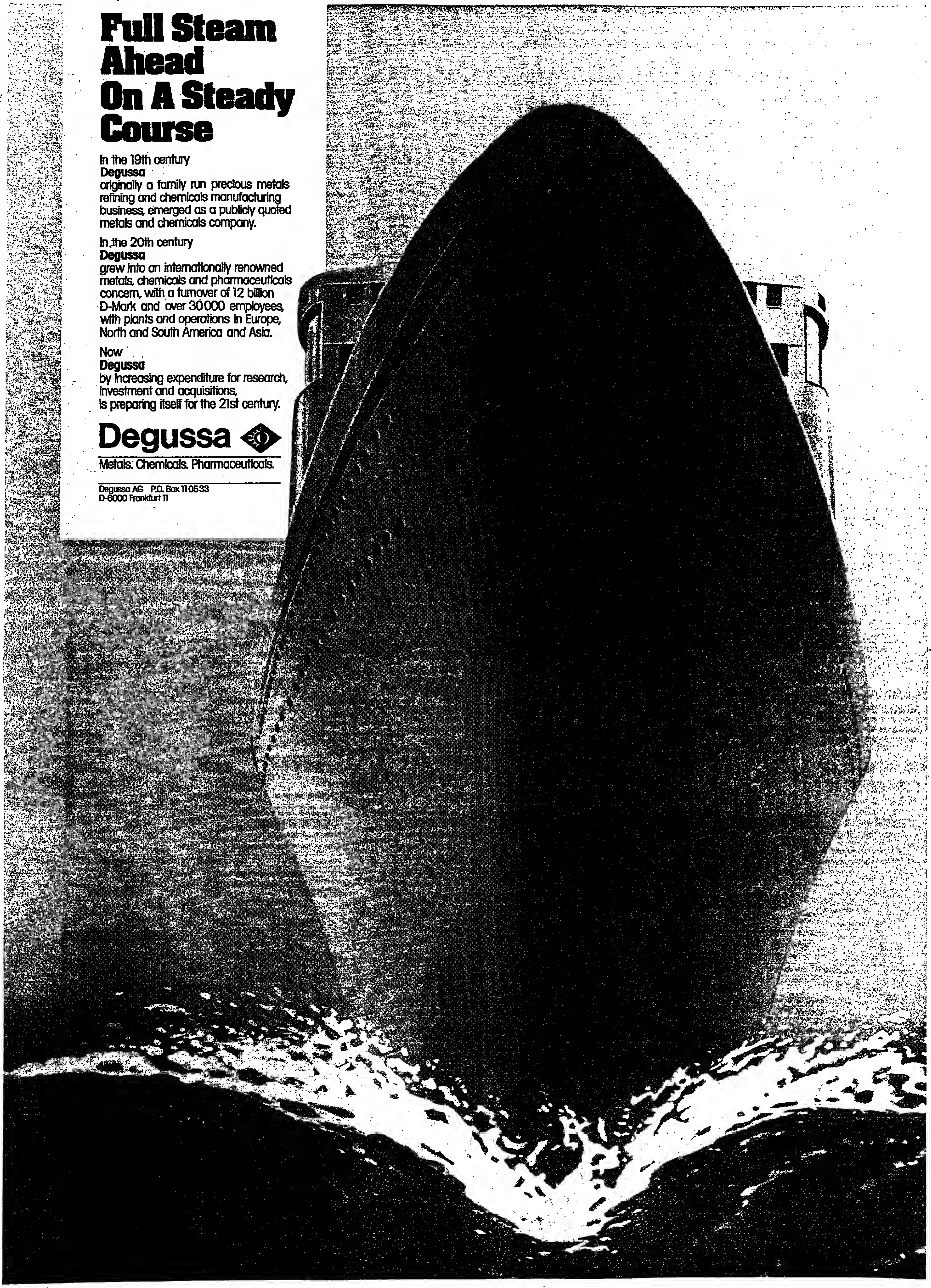
CONVERTIBLE BONDS

	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available-previous day's price

† Only one market maker supplied a price

[illegible]


Full Steam Ahead On A Steady Course
In the 19th century
Degussa
originally a family run precious metals refining and chemicals manufacturing business, emerged as a publicly quoted metals and chemicals company.
In the 20th century
Degussa
grew into an internationally renowned metals, chemicals and pharmaceuticals concern, with a turnover of 12 billion D-Mark and over 30000 employees, with plants and operations in Europe, North and South America and Asia.
Now
Degussa
by increasing expenditure for research, investment and acquisitions, is preparing itself for the 21st century.
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D-6000 Frankfurt 11

UK COMPANY NEWS

SINCE PRIVATISATION, MOVES BEYOND THE RUNNING OF AIRPORTS HAVE BEEN STEALING THE LIMELIGHT

BAA and Ramada link for global hotels deal

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

BAA, formerly the British Airports Authority, is planning to expand its hotel interests worldwide later this year by investing up to $91m (£51.87m) on an 80 per cent stake in a new joint venture with Ramada, the US hotels group.

Earlier this year, BAA revealed that it was planning to acquire Lynton Property & Reversionary, for an eventual sum of about £220m. This was part of its overall plan (following its privatisation last year) to expand its property development activities.

Since privatisation, Sir Norman Payne, BAA's chairman, has made it clear that, while running airports – both its own and others under contract – would remain the "core business" of BAA, it would also expand its activities into other areas, such as property development, hotels, aviation consultancy and other related services. These plans are now beginning to mature. Apart from the planned Lynton acquisition, BAA has opened its own direct retail outlets in the new North Terminal at Gatwick Airport, London, and at Addenbrooke's Hospital at Cambridge (with discussions in progress with other health authorities), and is planning new hotels of its own.

These include a 250-room hotel at Stansted, a 475-room hotel by the new North Terminal at Gatwick, and a 400-room hotel close to Terminal Four at Heathrow. The feasibility of a new hotel inside Heathrow's Central area is also being studied.

Announcing the new hotels venture yesterday, BAA said it had reached a non-binding agreement in principle with Ramada of Phoenix, Arizona, whereby a new joint organisation would take over the current operations and development rights of the International Division of Ramada. BAA and Ramada hope to settle the deal this autumn.

Overall, Ramada, a publicly-quoted company on the New York Stock Exchange, is diversified in the hotel, entertainment and restaurant industries. It owns, manages or franchises and has contracts for more than 138,000 hotel rooms covering some 800 properties, including those both inside and outside the US.

Ramada's International Division itself manages about 100 hotels outside the US, including those owned by others and leased, managed or franchised under the Ramada Renaissance, Ramada Hotel and Ramada Inn brand-names. They are in the UK, Europe, the Middle and Far East, Asia, India/Pakistan, Australia, Canada, South America and the Caribbean.

In addition, the division manages 12 hotels in the US, with several others under development, operating under the Ramada Renaissance name.

Mr Jeremy Marshall, chief executive of BAA, said the move not only expanded BAA's hotel activities but also provided a platform "from which a sustained growth in earnings per share could be achieved".

Mr Richard Snell, chief executive of Ramada, said: "We believe that the relationship that has been negotiated in principle between us will have substantial benefit for the shareholders of both companies. This understanding concludes well over a year of Ramada's searching for the optimum partner to build these operations into outstanding performers."

● For Ramada, the deal would provide a useful cash injection at a time when its flagging earnings have attracted the attention of corporate raiders, writes Anatole Kaletsky from New York.

The deal would also continue its strategy of selling off "mature" hotel businesses to concentrate on the development of new properties, particularly casinos and resorts.

While two major Tropicana casino developments in Las Vegas and Atlantic City have put pressure on Ramada's earnings and cashflow, the company has been approached by at least two takeover specialists with interests in the hotel and gaming businesses.

In January the Pritzker family of Chicago, which owns the Hyatt hotel chain, announced a 7.2 per cent stake in Ramada. And a year earlier, Mr Paul Bilzerian, the Florida-based corporate raider, said he might mount a bid for Ramada. His holding at the time was 4.2 per cent.

Ramada, which made net profits of only $123,000 (£70,000) in the first quarter on revenues of $188.8m, said yesterday that it would consider using the proceeds of the BAA deal to pay for a share repurchase programme. At yesterday morning's price of $8 a share, which was down $¼ on the previous night's close, Ramada could buy back 30 per cent of the 40m shares it has outstanding if it spent the whole of the $91m which it is due to receive from BAA.

Drummond Group up to £2.1m

BY ALICE RAWSTHORN

DESPITE a sharp rise in raw material prices Drummond Group, Yorkshire wool textile concern, increased pre-tax profits by 21 per cent to £2.1m in the year to end-March on sales 16 per cent ahead to £30.2m.

The result represents the third successive year of profits growth for Drummond, which came close to collapse in the recession at the turn of the decade. Mr Stefan Simmonds, chairman, said the group was now "actively looking" for acquisition opportunities.

Operating profits rose to £2.6m (£2.1m). The group paid £466,000 (£396,000) in interest on gearing of 54 per cent. The interest charge was inflated by the decision to increase stocks in order to improve its service to customers.

Tax took £334,000 (£215,000). The rate of tax will rise from 16 to 18 per cent next year. Unless its acquisitions include businesses with tax losses, Drummond will pay the full tax rate from 1990-91 onwards.

The cost of closing an unsuccessful new business making roller blind fabric was expressed as an extraordinary item of £107,000 (£590,000). Earnings per share rose to 15.6p (13.4p), and a final dividend of 2.1p makes a total of 3.1p (2.47p).

Drummond faced a 30 per cent rise in wool prices last year, but helped to mitigate the impact of the increase by using its new finishing plant. It invested about £1.5m in the plant, which now finishes over half of its output. This year it plans to introduce more specialised finishing facilities.

Similarly it has developed a new type of wool/polyester blended cloth which, according to Mr Simmonds, is of higher quality than standard blends. This has also helped to protect its profit margins against the wool price rise.

Drummond has steered its uniform and knitting fabric businesses into more value-added areas. The uniform division now concentrates on weaving cloth for corporate clothing worn in banks and building societies.

Mr Simmonds said that all areas of the business had fared well so far in the current year and that order books were at record levels.

● comment

In theory the combination of a strong currency and rising raw material prices should augur ill for Drummond and its fellow Yorkshire weavers. The woollen sector is certainly suffering. But the same swing in fashion that has sapped demand for chunky fabrics, has favoured the fine cloths made by worsted groups like Drummond. As a result the worsted business emerged as the healthiest area of activity last year and order books are bulging. It is a testimony to the group's recovery to have fared so well in a difficult year. Yet it may prove more difficult to swallow another rise in raw material prices. Nevertheless the City expects an increase in profits to £2.5m putting the shares – up 2p to 128p yesterday – on a prospective p/e of 8.5. Appropriate.

Rentokil expansion

Rentokil Group has made a major diversification move into office machinery and equipment with the acquisition of Shire Computers & Services Group.

Total consideration will be some £2m. Initially £300,000 will be paid, followed by additional profit-linked payments over the next two years.

In particular, Shire is a leading Ricoh dealer. Its turnover was £3.3m in the year ended January 1 1988.

Investa seeks permission for Marler investment

BY KAREN FOSSLI IN OSLO AND NIKKI TAIT IN LONDON

Investa, one of Norway's largest investment companies, confirmed yesterday that it was seeking permission from Norway's Central Bank, Norges Bank, to complete the deal which will give it a near 28 per cent stake in Marler Estates, the property company which owns Queens Park Rangers football club and the Fulham and Chelsea football grounds.

It would not be drawn on the value of the transaction, but said it needed to secure permission from the Central Bank to make the investment abroad. It was announced on Wednesday that Investa had acquired an option over the near-28 per cent holding which currently belonged to Mr David Thompson, the co-founder of food group Hillsdown Holdings.

Meanwhile, Marler said that its 85 per cent-owned subsidiary, SB Property Company, was looking to enter some sort of partnership arrangement with a residential development company, and hoped to make an announcement "before the summer break". This is with a view to developing the Chelsea ground as Stamford Bridge after August 1989, when the club's lease on the ground expires.

Marler director, Mr Robert Noonan, said yesterday that – through agents Savills – the company had put out a document seeking tenders for the lease after that date.

Mr Noonan added that the company expected to be in touch with Investa at some stage, although there had been no contact yet. Investa has about NKr 2bn in cash reserves which it has built up during the last two years from sales of property holdings in Oslo and stakes in the troubled Norwegian Vesta insurance group and Elektrisk Bureau (EB).

Burns-Anderson growth

BY CLARE PEARSON

Burns-Anderson Group, the financial services company with Sir John Harvey-Jones, former head of ICI, as its non-executive chairman, boosted pre-tax profits by 55 per cent to £1.35m in the six months to end-March.

The financial planning and banking services companies made up the bulk of profits. Mr Alan Moore, chief executive, said these operations had been insulated from any downturn in business after last October's stock market crash by the diverse services which they offered.

Burns-Anderson sold off all its industrial companies before last October and has been using the proceeds to build up its financial advice services. Last February, it launched a new subsidiary grouping independent financial advisers under the Burns-Anderson umbrella.

This subsidiary had a buoyant start, Mr Moore said. About 1,200 initial enquiries had been whittled down to 28 signed-up members so far, who between them accounted for £3.5m in brokerage income. There is a broad plan to take on ten more advisers per month over the next five years. Network start-up costs were £750,000.

The benefit to members is that they are sheltered by Burns-Anderson's own authorisation within the regulatory framework. In return, advisers, who also get administration and marketing benefits, pay a commission to the subsidiary.

Among other divisions, the stock broking arm, Manchester-based W.H. Ireland Stephens, made a loss of £15,000 in the five months after the crash. But it is now trading profitably.

Burns Anderson's recruitment operation made a small contribution to the interim figures but rapid expansion since the year-end meant it was contributing about 25 per cent of overall group profits. The group has spent about £2.6m building this side up over the last nine months.

Burns Anderson school fees contributed about £75,000.

Turnover rose to £5.29m (£2.98m). Profit attributable to shareholders increased by 64 per cent to £342,000. Earnings per share were up 35 per cent at 3.52p (2.6p). There is an interim dividend of 1.75p (1.5p).

CORRECTION

BWD Securities

The FT yesterday incorrectly reported that BWD Securities suffered a 60 per cent drop in interim pre-tax profits from £1.3m to £516,000. In fact, the £1.3m figure referred to profits in the whole of the 1987 financial year. The company did not give comparative figures for the first six months of last year, since this was before its flotation.

SE clears Eurotunnel of flaws in prospectus

By Nikki Tait

The Stock Exchange is believed to have cleared Eurotunnel of any shortcomings in its prospectus, published in connection with last year's £706m share issue. Claims had been made by Dr Joan Owen, anti-Eurotunnel campaigner, that the prospectus failed to give sufficient weight to the risks of terrorism or a budget overrun.

Eurotunnel strenuously denied that Dr Owen's complaints had any validity and responded to the Stock Exchange's request for comment accordingly.

FII-Fyffes up 66% and on target for year

FII-Fyffes, Dublin-based fruit and vegetable merchants, increased interim pre-tax profits by 66 per cent from I£3.83m to I£6.35m (£5.44m). Turnover in the six months to April 30 advanced from £117.03m to £122.89m. The directors said trading for the full year was on target.

Share of profit of associated companies contributed £891,000 (nil). Dividends received from the 20 per cent stake in Irish Distillers came to £923,000. FII-Fyffes recently sold the stake to GC&C Brands which has mounted a bid for the Irish whiskey group. The interim dividend is being raised to 0.363p (0.33p) on earnings per 5p share of 2.5p (1.63p).

Dowding makes £3.4m purchase

Dowding and Mills has agreed to acquire Ateliers Electriques de Walferdange SA, Luxembourg – a subsidiary of Felten and Guilleaume – for 5.79m Dowding and Mills shares having a market value of about £3.4m. The price includes the assets of an electric motor repair division at Krefeld, West Germany.

The new shares, which have been placed by Albert B Sharp on behalf of the vendor, will rank for the final dividend payable for the year to end June 1988. The acquisitions earned profits after tax in the year to Dec 31 1987 of about £338,000 and the net attributable assets amounted to around £1.74m.

Charterhall/Bridport

Charterhall, the investment company controlled by Mr Russell Goward, the Australian entrepreneur, has increased its holding in Bridport-Gundry, a manufacturer of netting and woven products, to 21 per cent. Shares in Bridport rose on the news to close at 253p, up 7p.

Rothmans reaches £288.8m and cash rises to £442.4m

BY CLARE PEARSON

Rothmans International yesterday reported pre-tax profits for the year to end-March broadly in line with market expectations at £288.8m, up from £195.5m previously.

Sir Robert Crichton-Brown, chairman, said the activities in luxury consumer goods again produced "outstanding" results, while tobacco subsidiaries continued to benefit from rationalisations.

The group now faced the challenges of reinvesting its substantial liquid funds, though no suitable acquisition targets had been found so far, he said. The group continued to investigate opportunities both within the tobacco industry and in fields outside its core businesses.

Net cash rose by £114.1m to £442.4m during the year, with funds generated by continuing operations swollen by disposals during the previous year.

At the operating level, tobacco interests contributed £276m (£205.9m) on turnover of £1.72bn (£1.63bn). Rationalisation costs amounted to £9.6m, against £15m in the previous year. The results included the first full year of Rothmans, Benson & Hedges, the 60 per cent owned North American venture.

Mr Crichton-Brown said that although Western European markets were declining, there were growing opportunities for tobacco sales in Eastern Europe, and the Asia-Pacific region also offered scope for further development.

Luxury consumer products produced £89.3m (£68.8m) of operating profits on sales of £489m (£406m). Within this, Dunhill, the 51 per cent-owned subsidiary, achieved a 44 per cent increase in attributable profit, although Chloe, its French fashion and fragrance business, produced only break-even results following a period of reorganisation.

Cartier, which is 47 per cent owned by Rothmans, achieved particularly encouraging watch sales. It has added to its range since the year-end by the acquisition of controlling interests in the Piaget and Baume et Mercier companies.

Overall, consolidated operating profits came out at £268m (£203.5m). Rothmans and its subsidiaries made £183.7m (£131.7m). The share of associates was £83.9m (£71.8m). Sales revenue of the group, including associated companies, were £2.46bn net – the comparable figure of £2.74bn included companies sold during the previous year.

A net interest charge in the previous year of £2.5m was transformed into net interest receivable of £22.7m. Redemptions reduced interest payable on some convertible bonds to £500,000, against £5.5m.

Ordinary and "B" ordinary shareholders will receive a final dividend of 7p (5.2p) making 10p for the year, a 30 per cent increase. Earnings per share on a fully diluted basis work out at 42.7p (28.6p).

Electron pays £8.35m for HB and aims for listing

BY CLARE PEARSON

Electron House, the USM-quoted fast-expanding electronic components distributor, is buying UK distributor HB Electronics from Rockwood Holdings. It is paying £8.35m in shares in a deal which will increase its issued share capital by more than 50 per cent.

Electron also announced yesterday it intended to obtain a full market listing in the autumn.

The consideration for HB takes the form of a vendor placing of 6.12m shares at 140p with full clawback for existing shareholders.

Mr Robert Leigh, chairman, said HB would significantly enhance Electron's presence in the passive components market, which should add stability to sales as the group continued to expand.

Additionally, Electron's gearing, which is about 100 per cent at the moment, will fall to about 43 per cent after the acquisition, he said. HB has cash resources of £1.4m.

The announcement was cautiously received by the market yesterday. Mr Leigh acknowledged that it would involve some dilution in earnings per share. This comes against a background of what has been described by analysts as a disappointing earnings performance since the company joined the USM three years ago.

In the year to May 1987, earnings fell from 9.1p to 1.65p because of a hefty tax charge. Pre-tax profits rose 39 per cent to £945,000 from £681,000.

Mr Leigh said he did not expect that profits of HB would benefit "significantly" after the company became incorporated into the Electron group. HB has warranted at least £313,500 profits before interest and tax for the five months to the end of May. In the year to last December it made trading profits of £495,676 on sales of £7m.

Electron says it will make not less than £2.65m pre-tax in the year to end-May on sales of about £57m.

A reduction in the effective tax rate from about 62 per cent to no more than 40 per cent means earnings per share should work through at 12.4p.

Glynwed acquisitions

Glynwed International has bought the capital of Kohlangaz Fire Company and Easiflame for £4m cash. A further payment of up to £1.1m, dependent on profits, will be made in 1990. Kohlangaz makes fuel effect gas fires and Easiflame makes components for fuel effect gas fires – its sales are mainly to Kohlangaz.

UK COMPANY NEWS

David Waller analyses the implications for the two Swiss companies after the battle for Rowntree

The spectre of Suchard at Nestlé's takeover party

YESTERDAY, the City was consumed by an outbreak of cheeriness.

Those merchant bankers and industrialists who havs been tearing each other apart for the past two months downed weapons, shook hands with one another, and appeared on the same platform at a press conference to celebrate the forthcoming union of Nestlé and Rowntree.

If it is not frustrated in some unforeseen way by Jacobs Suchard, Nestlé's agreed £2.55bn bid for Rowntree will be among the largest ever deals ever done in the UK, along with BP's £2.5bn bid for Britoil and Hanson's £2.66bn takeover of Imperial Group.

Certainly, it will be the biggest ever takeover of a UK group by an overseas company – the largest to date was when Elders IXL paid £1.4bn to acquire Courage. Sheer size apart, it looks likely to prove to be a tribnte to the workings of the capitalist system: no one appears to lose, and many appear to gain.

At a stroke, Nestlé eclipses Mars as the world's largest chocolate company and overtakes its arch-rival Jacobs Suchard as the biggest chocolate company in Europe. Suchard, with its nose no donbt pnt out of joint by the larger company's victory in the chocolate "bar wars", can console itself with a profit in excess of £200m on its 29.9 per cent stake, if it chooses to sell out to Nestlé. Rowntree, its pride hurt perhaps, will continue to be based in York and to be run by the same management team.

At first sight, Rowntree's 13,000 UK employees may not appear to participate in this universal jamboree. But a recommended deal is what the GMB General Union has been lobbying for, and Rowntree claimed yesterday to have had the interests of its employees uppermost in its mind in choosing to team up with Nestlé, rather than Suchard.

Mr Kenneth Dixon, Rowntree chairman, will be promoted to become an executive member of Nestlé's General Management Committee with responsibility for a newly created chocolate division.

Moreover, he and other board members, as well as 6,000 other employees, will make substantial amounts of money by exercising their options on Rowntree shares. In July last year, Mr Dixon was granted options for more than 80,000 shares, exercisable at 570p; all the other executive directors were granted options for more than 40,000 shares apiece, on the same terms. Most, including Mr Dixon, have more options granted at an earlier date, presumably on more favourabla terms.

Those shareholders who have not already sold out to either of the Swiss companies can also share in the general euphoria.

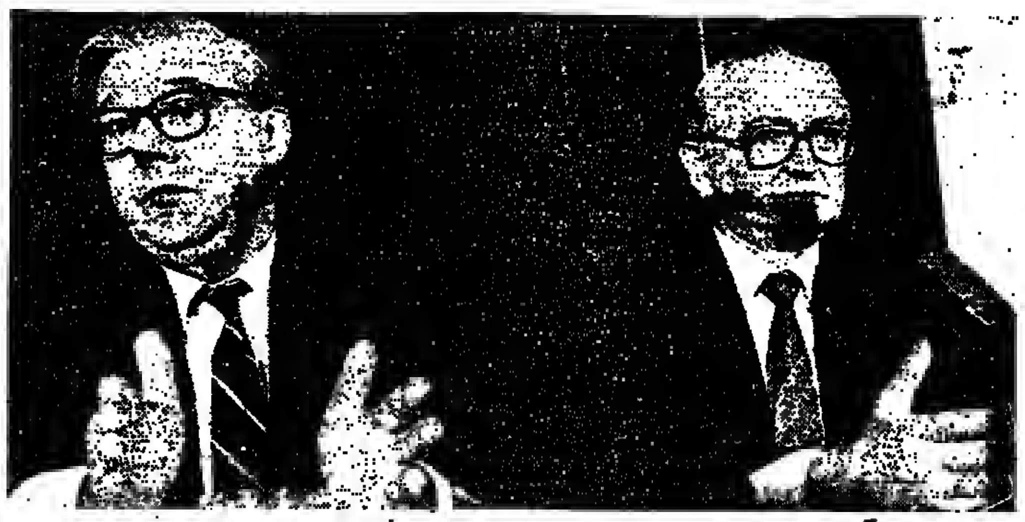
The £10.75p-a-share offer has crystallised the value of their company at a level that would have appeared inconceivabls before Suchard put the company "into play" with its dawn raid at 630p a share on April 13, in which it accumulated a 14.9 per cent stake.

At that time, the shares were 477p; they had never reached more than 592p, even at the height of last year's bull market. The latest bid is pitched at a generous 22.9 times Rowntree's forecast earnings, and at a huge premium to the book value of the company's assets, which amounted to £409m at the end of 1987.

Advisers obviously stand to do well, although precisely how well will not emerge until the detailed documentation is published. Schroders and County NatWest, merchant bankers to Rowntree and Nestlé respectively, will no doubt take a percentage cut of the take-out price. Even an infinitesimal percentage of a bid worth £2.55bn is a lot of money.

It will be interesting to see how much Goldman Sachs will receive for its somewhat ill-defined role in the defence; McKinsey & Co, management consultant also working behind the scenes for Rowntree, will no doubt be handsomely rewarded as well.

The tide of jubilation could be upset by Mr Klaus Jacobs, chairman of Suchard.



Alan Harper

Kenneth Dixon (left), chairman of Rowntree, and Helmut Maucher, managing director of Nestlé

As one observer commented yesterday, he controls a family company worth nearly £2bn and is used to being treated as a demi-god. The aristocratic entrepreneur likes to get his own way, especially where Nestlé is concerned: he was very happy to snatch Côte D'Or, the Belgian chocolate company, from under the nose of Nestlé in January last year. This time however, David is thought likely to yield to the might of Goliath.

As Mr Walter Anderau, Suchard's vice-president for corporate affairs, conceded yesterday, the company only has two options: to sell its stake in Rowntree to Nestlé, or to increase its offer.

Seeking to sell its stake, with strings attached – for example, in exchange for some kind of carve-up of Rowntree's lesser brands – appears to have been ruled out.

The Rowntree share price settled at about the level of Nestlé's offer yesterday, suggesting that the market does not think Suchard will resist the temptation to take a massive dealing profit. Suchard was thought by many to be stretched to the limit when it made its first £2.32 bid: with shareholder funds of SFr 1.14bn (£438.16m) at the end of last year, since boosted by a SFr 550m rights issue, Suchard's balance sheet would have been hit hard had it been obliged to write off the goodwill on the purchase.

The £1.75bn loan facility arranged by Swiss banks made it possible for Mr Jacobs to bid 975p a share without further borrowings. No doubt further lines of credit are available, and no doubt Mr Jacobs can find a way of showing the true value of the Rowntree brands in his company's balance sheet.

Perhaps Mr Jacobs will think Rowntree worth more to Suchard than to Nestlé. It is not impossible that he will come back with a slightly better offer: in anticipation of such an eventuality, Nestlé has not made its offer final.

It has been mooted that Mr Jacobs could take his profit on Rowntree and use it to win control of Cadbury – now set to be the only remaining international chocolate company which can actually be taken over. (Nestlé and Suchard are Swiss; Mars is a private company; Hershey is controlled by a charitable trust).

Analysts are sceptical: part of the attraction of Rowntree to a bidder from outside the European Community was its £300m of turnover in continental Europe, where profits are just beginning to take off after decades of investment. Cadbury, although larger than Rowntree in UK chocolate sales, has only recently moved into Europe with the purchase of the French company Poulain, in January this year.

When Mr Jacobs visited London to unveil his earlier bid, he made much of his company's marketing prowess and said that if a bid from Nestlé went through, he would quickly respond with a range of new products to challenge Rowntree's niche products. Although at the time this was dismissed as merely fighting talk, Mr Jacobs seems set to remain a thorn in Nestlé's side for some time.

Cadbury battens down the hatches

BY LISA WOOD

THE LIKELY resolution of the battle for control of Rowntree has turned City spotlights upon Cadbury Schweppes – the only international confectionery manufacturer that remains vulnerable to takeover.

Speculation has raged for some months on the possible fate of Cadbury, in which General Cinema, US cinema chain and Pepsi Cola bottler, has an 18.4 per cent stake.

General Cinema has been building its stake for 18 months. Cadbury, which has successfully concentrated on its two core businesses, soft drinks and confectionery, after its weaknesses were exposed in the early 1980s, has been on constant alert. Weeks have been spent in discussions with Kleinwort Benson, the group's merchant bank, evolving defence strategies.

Mr Dominic Cadbury, chief exacntive, said yastarday:"Given that we have been the subject of takeover specnlation, we have made it our bnsiness to see that we are totally prepared to resist any hostile approach. We are not going to be caught by surprise."

Cadbury has not invited discussions with General Cinema, which recently provoked a boost in Cadbury's share price when it announced it was not a passive investor. It said it was prepared to pay up to $1bn (£570m) for more shares – an amount which would enable it, at Cadbury's current share price, to buy another 20 per cent. The US group would have to mount a full bid should it's stake in Cadbury go above 29.9 per cent.

Several possibilities have been mooted over Cadbury's future including suggestions that:

● General Cinema has been seeking to flush out a bid.

● General Cinema, with an eye to Cadbury's US soft drinks activities, might break-up the group in association with another party such as the disappointed suitor for Rowntree.

● Cadbury – which must remain a take-over target in the long term, particularly with US companies seeking to have a stake in the European market – might merge some of its activities with another confectioner.

Cadbury's share price jumped 9p yesterday to 422p reflecting speculation hinging on whether or not Jacobs-Suchard emerges as the disappointed party in the battle for Rowntree. Analysts suggest Suchard is likely to cash-in its stake in Rowntree - and net a £200m profit.

If Suchard's grand ambitions in confectionery are to be satisfied – should it walk away from Rowntree – Cadbury, with a market capitalisation of £2.5bn, would be a more complicated and expensive nibble. Unlike Rowntree, Cadbury's business includes confectionery and soft drinks.

The soft drink businesses include those in the US, an operation, according to analysts, General Cinema might like to acquire. Hence, the neat idea that General Cinema and Suchard might together divide the spoils.

Such a strategy involving either a joint bid or one of the two partners mounting the bid and then selling the other bnsiness after acquisition, could be fraught with difficulties. Mr Michael Landymore, of Henderson White Jenkins, stockbrokers said: "If Suchard wants the confectionery business it would want to sell the soft drinks bnsiness at tha highest price. Their objectives, it would appear are irreconcilable."

A further complicating factor is that Coca-Cola has a call option on Coca-Cola Cadbury Schweppes Beverages, a joint bottling venture between the two soft drinks manufactures in the UK, should there be a hostile bid for the UK company. Any such bid would therefore be complicated by Coca-Cola which is understood to be committed to its partnership with Cadbury.

A credible scenario that might satisfy some, if not all, of the parties could be joint ventures, or minority stakes between Cadbury and Suchard. Such a strategy would be soundly commercial – as well as defensive – given the new strengths of Nestlé, a major competitor of both companies, in important markets including Continental Europe where major re-structuring is occurring in the confectionery business. Mr Cadbury, speaking in the most general terms, said there was always room for joint ventures where they afforded commercial advantage. He added that it was too simplistic just to talk about Cadbury and Suchard.

Penny & Giles Intl improves to £2.07m

Penny & Giles International, which is involved in the design and manufacture of electronic instrumentation, lifted pre-tax profits from £1.79m to £2.07m for the year to end-March. Turnover was up from £18.05m to £20.6m. Earnings rose to 14.75p (13.11p), and the directors have recommended a final dividend of 2.12p (1.74p), making a total of 3p (2.5p).

DIVIDENDS ANNDUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Bankers' Inv Tst ....int	0.42	Aug 31	0.36	-	1.6
BTP ....fin	3.95	-	3.5	6.2	5.5
Burns-Anderson ....int	1.75	-	1.5	-	3.5
Dundee & London .int	2.9	-	2.4	-	6.8
Econ Forestry § ....int	1.25	July 25	1.25	-	3
ERF ....fin	7	-	nil	9	nil
Fll-Fyffes ....int	0.36	-	0.33	-	1.17
Grainger Trust ....int	0.94	-	0.75	-	3.33
Greycoat Group ....fin	2	Oct 3	1.55	3.6	2.75
LPA Industries ....int	1.4	Aug 8	1.17*	-	2.5*
Macarthy ....int	4.5†	Sept 29	4.5	-	11.5
Melville Street ....fin	1.5	Aug 26	0.13	2	0.13
Penny & Giles ....fin	2.12	-	1.74	3	2.5
Raeburn Trust ....int	8	-	7	-	16.5
Rothmans Int'l ....fin	7	Sept 13	5.2	10	7.7
Soundtracs § ....int	0.7	-	0.7	-	1.9

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market.

Net assets recovery at Melville Street

Melville Street Investments, venture capital fund, yesterday revealed a recovery in net assets per share for the year to April 30 from the depressed midway level.

The group, managed by British Linen Fund managers, a subsidiary of The British Linen Bank – the merchant banking arm of the Bank of Scotland – announced net assets of 138p per share at the year end – down from the 147p reported a year earlier, but a 13 per cent improvement on the 122p prevailing at the interim stage. Total assets now stood at £25.79m.

The decline in net assets over the year was attribnted to the failure of three investments out of the group's total portfolio of 48 companies, and reduced valuations placed on other investments.

Mr George Philip, chairman, said the second half improvement led him to believe that "after a difficult year, the company will again see a rising pattern of asset growth".

During tbe year, Melville invested £4.8m of venture capital, an increase of 26 per cent on the previous year. Of the sum, £2.7m was directed to new companies, with £2.1m going into existing investments. Realisations proved successful with Melville gleaning over £1.7m from the sale of its stake in Babygro Holdings.

Pre-tax revenne for the year was £690,830, and resulted in earnings per share of 2.6p. A final dividend of 1.5p is proposed, for a 2p total. In the previous period, the three months to April 30 1987, Melville paid a dividend of 0.125p.

English Rose acquires Horncastle

English Rose Hotels has acquired Horncastle Hotels with the purchasa of 2.57m ordinary 10p shares at 17.5p each, representing 54.9 per cent of the issued equity share capital of Horncastle.

It will make an offer for the remaining shares on the basis of 17.5p per share, valuing the company at £820,545. Horncastle shares trade on the Guidehouse over-the-counter market.

Bankers' Inv Trust

Asset value at Bankers' Investment Trust at the end of the six months to April 30 was 84.3p (79.7p). Earnings 0.71p (0.65p). Second interim 0.42p (0.36p).

Dundee & London asset value lower at 339p

Net asset value of Dundee & London Investment Trust stood at 339p at April 30 1988 compared with 354p a year earlier and 344.6p at the year end on October 31 1987.

Total income for the six month period was £943,000 (£712,000) and net revenue after tax of £233,000 (£194,000) worked through at £604,000 (£421,000) for earnings per share ahead from 2.46p to 3.55p.

An interim dividend of 2.9p (2.4p) is being paid – a 21 per cent increasa.

Grainger up 42% midway

Grainger Trust, property investor and trader, saw pre-tax profits advance 42 per cent from £2.22m to £3.15m for the six months to end-March. This was achieved on turnover raised from £7.01m to £9.34m.

Although trading profits were up at £6.32m (£4.56m), other investment income dropped to £69,000 (£189,000), property expenses increased to £2.61m (£1.71m) and management expenses to £463,000 (£265,000).

Earnings came out at 11.4p (7.7p) and the interim dividend is lifted to 0.9375p (0.75p).

BOARD MEETINGS

TODAY

Interims- Beckenham, First National Finance.
Finals- Ariel Inds, A F Bulgin, Campbell & Armstrong, REA, Swanyard Studios.

FUTURE DATES

Interims-

Gardiner	June 28
Gestetner	July 4
Kleinwort Benson Gilt Fund	July 1
Scandinavian Bank	Aug 30
Finals-	
Alexander (Walter)	June 28
Baker Harris Saunders	July 6
Bridgend	June 27
Fletcher King	July 4
Gresham House	June 29
Reel Time Control	July 4
Scantronic	June 30

UK COMPANY NEWS

Macarthy cuts wholesaling side

BY VANESSA HOULDER

A BITTER five-month battle in the UK pharmaceutical wholesaling industry came to a head yesterday when Macarthy, a quoted healthcare company, announced that it was abandoning plans to become a national pharmaceutical wholesaler.

The company is closing six depots in its southern division and making 650 redundant in an effort to cut costs, release working capital and reduce its exposure to pharmaceutical wholesaling.

The decision follows Macarthy'a abandonment earlier this month of its £80m bid for UniChem, the co-operative which is the UK's second largest chemists' wholesaler, after its rejection by the UniChem board.

The bid – and Macarthy's decision to cut back its wholesaling activities – were made in response to a controversial incentive scheme introduced in January by UniChem. This scheme offered retailers, in return for extra business, bonus shares when the friendly society goes public in 1990.

Mr Nicholas Ward, Macarthy's chairman and chief executive, yesterday confirmed that the UniChem scheme has taken and will continue to take a considerable amount of business away from Macarthy's pharmaceutical wholesaling business. As a result of this, and the amount of senior and middle management time absorbed on the matter, the southern wholesaling business is not covering the cost of the capital employed.

In an effort to restore the division's profitability, Macarthy is concentrating on regions where it has the strongest connections and loyalties. In the North it will maintain its existing operations and in the South it will consolidate its activities into the areas that can be serviced from its three remaining depots at Weedon, Harold Hill and Cambridge.

Mr Ward said the decision had been made in the knowledge that UniChem's incentive scheme may be modified or prohibited by the Office of Fair Trading, which is investigating the scheme under the Competition Act 1980.

Given the slowness and uncertainty of the process, the company could not continue to sustain the losses stemming from its existing depot structure. Furthermore, the nature of UniChem's trading rules made it difficult to regain UniChem's customers.

Macarthy has also instituted legal proceedings under Article 85 of the Treaty of Rome, seeking damages for the business it has lost under the UniChem scheme.

Mr Ward dismissed the possibility of acquiring UniChem in the future. The cuts on the wholesaling side reduced the synergy between the two businesses, he said.

Earnings reveal toll of UniChem scheme

Macarthy, the pharmaceutical wholesaler and distributor which has been embroiled in an acrimonous struggle within its industry this year, yesterday reported a 48 per cent increase in pre-tax profits from £2.62m to £3.87m for the six months to April 2, writes **Vanessa Houlder**.

However, earnings per share, a more accurate measure of performance in view of the doubling of the share capital last October, fell by 11 per cent from 11p to 9.8p.

The results, which reveal the extent of the damage inflicted on Macarthy's business by the controversial share incentive scheme introduced in January by UniChem, a rival wholesaler, dismayed the City. Following the announcement the share price fell from 228p to 211p.

The disappointing result stemmed from a sharp downturn in the company's pharmaceutical wholesaling business, which offset a considerable improvement in retailing activities.

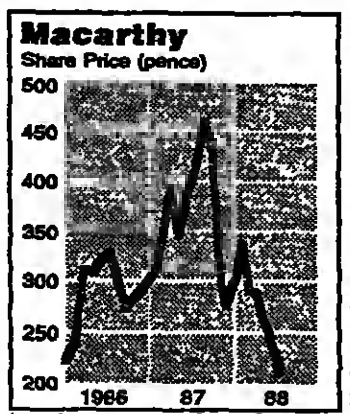
Profits for the manufacturing and distribution division fell from £3.05m to £2.8m, while retailing profits surged from £582,000 to £2.24m. Overall, turnover increased by 39 per cent to £193.8m.

Mr Nicholas Ward, chairman, said the absorption of last year's acquisitions of the R Gordon Drummond pharmacy chain and Lifecycle had gone well. The progress in improving profitability of the original business and integrating acquisitions was reflected in an improvement in the retail division's net operating margin from 3.6 per cent to 5.7 per cent.

In the manufacturing and distribution division, a good performance was posted by recent acquisitions and there was a satisfactory performance from Farillon, the specialist pharmaceutical distributor, and from Willington, the veterinarywholesalar.

The wholesale division of Macarthy Medical, had a strong first quarter dne to the rationalisation and modernisation programme implemented during 1986-87. However, since the beginning of January, the increased sales trend was reversed as a result of the UniChem share scheme.

Macarthy is now scaling down its pharmaceutical wholesaling activities. The manufacturing activities have also been reviewed and will be repositioned to concentrate on areas of special expertise.



Costs of defending the pharmaceutical division, including a provision for pursuing a proposed merger with UniChem, which was abandoned earlier this month, and the costs of reorganising the wholesaling and manufacturing division have not been included in the first half results and will be charged as an extraordinary item.

An interim dividend of 4.5p was declared, which represents a 15 per cent increase on the 1987-88 dividend after adjusting for the bonus element in the October 1987 rights issue.

● comment

Macarthy is a turnaround story that has gone sour. Until January, the new management team was winning plaudits thanks to its policy of buying up community pharmacists for the retailing business and cutting costs on the wholesaling side. Through no fault of its own, the UniChem saga has changed all that. UniChem's incentive scheme has wrested and will continue to wrest away business from Macarthy's wholesaling business. So even with the drastic rationalisation measures, the outlook looks bleak – unless the Office of Fair Trading or the Treaty of Rome comes to the company's rescue. Given the uncertainty on this count, the shares, on a multiple of 12, assuming profits of £7.2m for the full year, look somewhat overpriced.

Assets rise in Stead & Simpson bid defence

By Nikki Tait

Stead & Simpson, shoe and motor retailing chain, yesterday hit back at the £89.5m bid from Clayform Properties with a substantial asset revaluation and a forecast that pre-tax profits will rise by a fifth in the current year.

Stead said that its net asset value was currently £118.8m, which – on the ratio set by the Clayform bid – would work out at £15.94 per ordinary share and 166p per "A" non-voting share.

The figure is derived from a valuation of its properties on an open market, existing use basis, including the short leasehold properties which have not been previously valued. Of the total property portfolio, 63 per cent – "a representative sample" – has been subject to independent valuations and shows an aggregate value of £61.6m, against a book value of £38.8m.

The remaining properties have been valued by the company's directors at £36.7m, compared with a book value of £24m.

Stead said yesterday that it wished to complete the valuation quickly and hence the "representative sample" approach was adopted. It pointed out that this had been done in other contested situations. However, Clayform described the absence of a full independent valuation as "rather odd" and the valuation itself as "fragmented".

Stead said that sales in the footwear division for the year to date were nearly 13 per cent ahead of the previous year – although it conceded that price inflation contributed 4 to 5 per cent – and profit margins had improved further. Overall, it predicted pre-tax profits in excess of £10.7m in 1988-89. In the year to end-March 1988, pre-tax profits were £8.9m.

Included in the forecast are property profits of £3.1m, expected from the disposal of six sites, two of which have been sold already. In its 1987-88 accounts, Stead took a net surplus on property disposals of £2.56m above the line for the first time.

The directors are suggesting a dividend of not less than 5.6p for 1988-89, up 22 per cent over 1988.

Clayform, however, extended its criticisms to the profit projections – claiming that the property element represented "a sale of the family silver", and that if the company had to pay market rents across its revalued portfolio, trading profit progress would be substantially reduced.

The defence document had only a modest impact in the market. The "A" shares edged up 3p to 133p, while the key voting ordinary gained 10p to £14.25p – well ahead of the 125p/£12 bid terms and clearly anticipating a higher offer.

At the last closing date on Tuesday afternoon, Clayform had received acceptances in respect of 0.02 per cent of the ordinary shares, giving it total control of 30.02 per cent. It also had acceptances on behalf of 1.46 per cent of "A" shares, taking its tally to 11.16 per cent. The offer has been extended to July 1.

Few surprises in Greycoat's rate of asset and profit rise

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

Greycoat Group, the property investment and development undertaking with a strong central London offices portfolio, lifted its net asset value by 34 per cent to 404p per share in the year to last March.

The uplift was in line with expectations in a market which has become accustomed to a rise in asset valuations of over 25 per cent among the major property investment groups. The shares yesterday slid 5p to 430p.

Like the rise in asset value, the increase in pre-tax profits to £17.07m from £9.1m in 1986-87 caused few surprises. Earnings per share rose 71 per cent to 19.5p from 11.4p the previous year.

A final dividend of 2p a share is recommended, bringing total payments for 1987-88 to 3.6p, compared with 2.75p.

Greycoat's business is directed towards retaining all of the development surplus it creates from its projects. It is directed above all to capital growth, rather than immediate earnings expansion.

The group's properties, including its share of those owned by associates, are now worth £540m, of which investments account for £376m and developments, valued at cost, for £164m. Although Greycoat is building up its retail business, offices account for 93 per cent of the portfolio. Geographically, the portfolio is dominated by central London boidings, accounting for 82 per cent.

Mr Geoffrey Wilson, the chairman, said that the total cost of the current development programma is £750m, made up of eight central London office schemes, five UK shopping centres and four US office projects.

Total borrowing facilities are £922m, of which £327m has been drawn. The current ratio of debt to shareholders' funds is 45 per cent.

● comment

Greycoat has been riding the cantral London property boom and its asset value has reflected the strong capital and rental growth in the sector. It is now in a strong development phase, but the main benefits of that are more likely to show through in 1989-90 and 1990-91 when major buildings in Victoria, Charing Cross and Finsbury Circus have been completed. They will help towards a doubling of net asset value by 1991. This year the rise is likely to be less striking with City estimates looking for Greycoat's average growth to be maintained. That would suggest a nav of about 480p. Historically, Greycoat has kept earnings low: the first priority on revenue is servicing the loans on maturing investments. So pre-tax profits could turn out at up to £19.5m, to give earnings per share of 20p and a prospective p/e of 21.5.

Enlarged BTP improves profits by 68% to £9.7m

BTP reported taxable profits of £9.66m for the year to the end of March 1988, up 68 per cent on the £5.75m given for the previous year. The comparatives have been restated to take account of the merger with Graesser Laboratories, chemical manufacturer, and for losses at trading businesses, since sold, which were found to relate mainly to the previous year.

Turnover for the Manchester-based chemical manufacturer rose 66 per cent from £65.17m to £107.92m. Earnings per 10p share came out at 10.88p (7.05p) and the directors are proposing a final dividend of 3.95p (3.5p) for a total of 6.2p (5.5p).

Mr Frank Buckley, chairman, said that the group had developed substantially in the last few years and was being split into two divisions, chemical and industrial, both of which had a good year. The Graesser acquisition in March this year strengthened the chemical manufacturing activities considerably.

He added that following the acquisition of Barrow Hepburn Group in March last year certain companies within that group had been raviewed and how their activities met the group's longer-term strategy had been appraised. That resulted in the engineering-related businesses being sold for about £6m which improved group borrowing to a little less than £3m, compared with £11m.

The tax charge was £2.49m (£2.16m) and minorities took £77,000 (£22,000). There were extraordinary charges of £2.05m (£68,000 credit), leaving attributable profits of £5.04m against £3.64m. Dividends absorbed £3.66m (£2.18m).

Anglo-French holding in Lee Valley Water rises to 16.01%

By Nikki Tait

Cementation-SAUR Water Industries – the joint company formed by Trafalgar House and the French Bonygues construction group – yesterday announced that it now owns about 16.01 per cent of the voting rights in Lee Valley Water Company. The increased stake follows the purchase of a further £60,000 of 5.95 per cent redeemable preference stock 1995/97.

Cementation-SAUR, which has declared minority stakes in four of the 29 statutory water companies, was set up to seek experience of the UK water industry before the planned privatisation of the 10 regional water authorities.

Interest in the hitherto obscure water company stocks has surged recently, as investors and overseas companies – particularly, the French – have realised the potential which they could offer in the wake of privatisation of the water authorities. Earlier this week, French water company Lyonnaise des Eaux made a £47.6m offer for Essex Water Company, Britain's largest, setting a new pricing level in the sector.

Buoyant sales boost ERF

CONTINUED BUOYANT demand for ERF Holdings' E series trucks prompted further strong recovery in the Cheshire-based group's turnover and taxable profits.

In the 53 weeks to April 2, the manufacturer of heavy commercial vehicles and plastics lifted pre-tax profits to £5.61m (£718,000) on turnover up 61 per cent from £75.91m to £121.92m. Earnings per share jumped to 58.16p (8.61p). The directors marked the sharp improvement by recommending a final dividend of 7p – the first final since 1982 – making a total of 9p for the year.

Mr Peter Foden, chairman, said that assuming the UK economy continues its present growth, the group could expect commercial vehicle sales to remain strong. With the success of its present products, ERF hoped to see a further improvement in market share.

Further models are due to be introduced in October. These would improve the group's competitiveness in the 24-32 tonne weight range, Mr Foden added.

City PR Group coming to USM

BY PHILIP COGGAN

City of London PR Group is coming to the USM via a placing valuing the press and investor relations company at £7.2m.

The business was founded in 1971 by Mr John Greenhalgh, who decided early on to concentrate on Australian companies. Of the group's 55 corporate clients, 46 are Australian.

Pre-tax profits rose from £168,000 in the year to March 31 1985 to £611,000 last year, while turnover grew from £436,000 to £1.09m over the same period.

Charlton Seal is placing 2.1m shares, 27 per cent of the equity, at 99p apiece. The shares are on a historic p/e of 14 at the placing price; the notional gross dividend yield is 2.4 per cent.

USM placing for Reject Shop

BY PHILIP COGGAN

The Reject Shop, a retailer selling furniture and gifts, is joining the USM in a placing which values the group at £14m.

Reject was founded in 1973 by Ms Anna Vinton and Mr Anthony Hawser, now joint managing directors. The original idea was to sell "seconds" – goods having tiny defects – at substantial discounts. As the group built up buying power, it became able to sell "firsts" at similar discounts.

There are now 13 stores in the chain, situated around the country from Bromley, Kent, to Newcastle, Tyne & Wear. Turnover has grown from £6.46m in the year to January 1984 to £13m last year, while pre-tax profits have risen from £142,000 to £1.1m over the same period. The company dipped into the red in the year to January 1985 following a change in the product range and corporate image.

McCaughan Dyson Capel Cure is placing 1m shares, 10 per cent of the equity, at 140p each. The shares are on a historic p/e of just over 18 at the placing price; the indicated gross dividend yield is 3 per cent.

Paul Abrahams reports on new computer-based techniques for identifying criminals

A store of faces to help the police with their inquiries

A POLICEMAN'S lot is about to become a happier one after the introduction of new technology to help witnesses identify suspects.

The electronic system, called E-Fit, has been designed by the University of Aberdeen and IO Research, a London-based graphics company, in conjunction with the British Home Office. It is expected to replace Photofit, which has been used by UK police forces to help witnesses produce images of suspects since the 1960s.

"The aim of E-Fit is to help people build up a picture of somebody they may have seen only briefly," says John Shepherd, senior lecturer in Psychology at the University of Aberdeen.

"An officer will take down a detailed description from the witness," he says. "Facial recognition tends to depend upon the grosser aspects of the face – the hair, its style and length, and the basic shape of head, whether it's long, bony, or fleshy.

"Details about the eyes, nose and mouth are fine-tuning. That's why false moustaches, beards and wigs are such a good disguise – they break up the shape of the face."

Shepherd explains that the basic details of the description are entered by a policeman into a microcomputer, using pre-programmed "descriptor" words. The program then tries to match the description with a database of 2,500 features stored on disk.

The database is made up of features photographed from policemen. No more than two features from each man are stored, so there is no risk of a real face being matched.

At present the database consists only of white males, but there are plans to build up others containing women and members of other ethnic groups. Such faces will require the programming of additional descriptor words to describe their features.

Once the basic details of the description are in the computer, the system displays a black and white image of a face on its screan. Ray Winter, IO Research's sales and marketing director, explains that E-Fit can generate 127 different shades of grey, and could have been designed to use colour. At the moment, however, it is nsing only 12 greys, because using the full capacity of the system would have made its images too precise to be helpful to the witness.

"We could provide photographic quality," says Winter, "but then the picture would no longer be an idea – it would be a reality and wouldn't leave any room for flexibility in people'a minds."

Once an image is on the screen it can be fine tuned by manipulating features such as the hair, eyes, nose, chin and mouth with the computer's "mouse". One of the advantages of E-Fit over Photofit, says Winter, is its ability to move and alter features instantly as the witness is watching, which allows the witness to experiment with different features.

> Work similar to E-Fit was carried out by the US Justice Department in the 1970s, but was later abandoned

Winter explains that it is important that individual features, like the mouth, can be moved because their exact position can greatly change the character of the face.

Other particular characteristics, such as moustaches, beards, and glasses can also be added, and scars and tattoo drawn in by hand.

Once the witness agrees that the face resembles the image he or she remembers, the final version can be transmitted onto 35mm film, a printer or sent down a line to other police stations.

John Shepherd at Aberdeen University says that tha electronic E-Fit system has a number of important advantages over traditional Photofit.

"When people helping the police used Photofit, they had to pick features in isolation from each other out of a book," he says. "It was a dispiriting and confusing task. And once a face had been put together it was difficult to know what to change.

"E-Fit is much easier to use," he claims. "You can have a decent stab without having to fill in all the details at once. It's then much easier to change features around."

He says the final output of the new system is far superior to Photofit. The faces are now quite realistic and are merged and blended. Photofit pictures, he says, tended to be angular and had an air of unreality about them.

Shepherd says that an affordable electronic facial recognition system has only recently become possible. Ten years ago it would have required a dedicated mainframe computer to do what an IBM-AT microcomputer with two megabytes of memory is capabla of doing today. Even seven years ago, when a feasibility study for a system similar to E-Fit was carried ont, the workstationa required cost about £100,000 each.

"There has been a quantum leap in technology," he says. "E-Fit will run on desk-top computers with enormous memory in small spaces with low prices. The larger memory also means that there is room to make the system easier to nse. The policeman using it doesn't need to have any computer training."

The improved performance of low-cost personal computers has allowed a second facial recognition system, called Faces, to become feasible.

Faces, which has been on trial in Blackburn, Lancashire, since September, was also developed by the University of Aberdeen and the Home Office. It attempts to match existing photographs of locally convicted criminals with a description given by witnesses.

"The system is planned to prevent witnesses having to go through the time consuming process of looking at books of mugshots," says a spokesman at the Home Office. "By the time you have fingered through 200, any image in the memory becomes so befuddled that you are just as likely to point out your neighbour as the person who committed the crime," he says.

He explains that the faces of local criminals are entered on to a database. The computer asks for particular points of the face which are measured and then coded.

The policeman then provides judgement values about the face on a scale of one to five. A spokesman at Blackburn Divisional Headquarters explains that a bony face would be given a rating of one, while a moon face would be marked as a five. Details about weight, build, hair and eyes are added from the criminal record.

Once the description provided by witnesses is keyed in, the computer searches the database, which has a capacity of 20,000 records. It then matches the 12 photographs which most closely resemble the description and displays them on screen.

Blackburn police say that Faces is quicker and more efficient than using books of photographs. They say that both witnesses and policemen like the system, and the success rate of picking out a face is much better with the system than albums. It is too early to say, however, whether its use will increase the conviction rate.

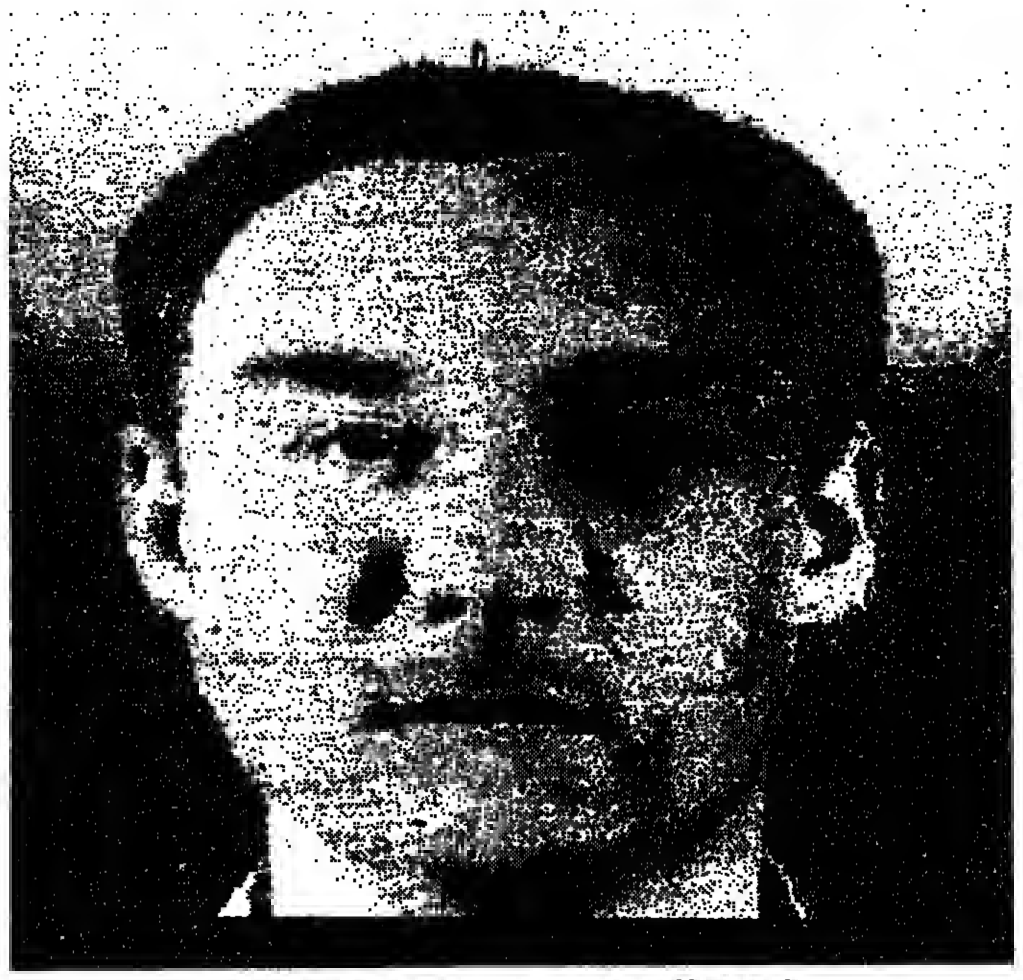
The Home Office hopes that both E-Fit and Faces could eventually be linked together nationally with a third system which stores photographs of convicted prisoners and is being tested in Hertfordshire.

It also believes that the systems, if successful, could be promoted on a world wide basis. The spokesman explains that other police forces have already experimented with facial recognition equipment, but none has managed to implement it on a large scale.

John Shepherd at the University of Aberdeen says that work similar to E-Fit was carried out by the US Justice Department towards the end of the 1970s, but was eventually abandoned because of technical difficulties and the cost of equipment at the time.

He says that Minolta produced a non-computer-based system for the Japanese police called Montage. However, he claims that the police eventually abandoned it because the pictures being produced were unsatisfactory.

In theory, if E-Fit is adopted by other national police forces they would be able to swap databases in their efforts to deal with terrorism and hooliganism.



An imaginary suspect: a composite face created by computer

WORTH WATCHING

Edited by Geoffrey Charlish

Phones recalled

THINGS CAN go wrong in the best of companies. The big Swedish telecoms group Ericsson, for example, is having to recall mobile telephones with the HotLine Combi brand name because, under certain circumstances, they can blow up.

The radios were manufactured mainly during 1987 and 1988 and in these models it has been found that a small battery can be wrongly installed, shorting its terminals and possibly causing it to explode. Three such explosions have occurred, without injury to anyone. People with these radios are advised to disconnect the radio from the car, disconnect the battery unit and consult the nearest Ericsson service centre.

Ericsson Radio Systems: Sweden, 101 732730.

Into an IT future

BY THE end of the century, 60 per cent of Europe's workforce will work in or be dependent upon communications and information technology.

Mr Michael Hardy, a director responsible for these areas at the European Commission, put the view forward at the recent opening of a UK Rank Xerox laboratory in Cambridge.

Mr Hardy sounded a warning note, however, about the proportion of world trade in these areas, currently $650bn, that Europe might be able to win in the face of competition from the US, Japan and South East Asia.

Comparing research and development expenditure in the information technology field, he observed that in Europe it is 0.39 per cent of gross domestic product, 0.51 per cent in Japan and 0.62 per cent in the US. This is equivalent to £72 per head of the population in the US, £42 in Japan and £28.50 in Europe.

Hardy's remedy is European co-operation and he believes the Commission's Esprit project is having important effects beyond just technical success. He said: "Self confidence has been regained by European firms - a feeling that it will be possible for them to hold their own."

But there are serious problem areas. One is telecommunications research, where drastic measures will be needed before the 1992 "single internal market" becomes a reality. Hardy said: "Europeans invested almost £7.125bn in the development of sophisticated digital switching systems (telephone exchanges) and ended up with nine different systems."

Rank Xerox: UK, 0628 890000.

Lightning strikes

CULHAM LABORATORY, part of the UK Atomic Energy Authority, is to study the possible effects of lightning on the nuclear power station being built by the Central Electricity Generating Board (CEGB) at Sizewell in Suffolk.

Scientists and engineers will assess the damage that might be caused either to the electronic safety systems or to the structure of the power station itself.

Culham has one of the largest and best equipped lightning studies units and has been closely concerned with the effects of discharges on aircraft. The new investigation will benefit from the fact that the control systems used in large plants have close similarities to those in airliners. In particular, greatly increased use of extremely small circuit elements on the "chips" used in modern electronics, and the relatively low operating voltages employed, means that electronic systems can be put out of action more easily.

Culham Laboratory: UK, 0235 21840.

Finding faults

FAULTS IN very large scale integrated (VLSI) chips can be pinpointed with relative ease using an electron beam probing system, IDS 4000, offered by Schlumberger Technologies, the automatic test equipment specialist of Dorset, UK.

The chip, in a vacuum chamber, is scanned by an electron beam in the same way that a beam scans a TV tube face to make the picture. In the test system, the beam traverses the surface of the working chip and is intense enough to make the surface give off further, secondary, electrons. These are attracted to an electrode where they form a detectable electric current. Their number is determined by what voltage is present on the surface at each point traversed.

Schlumberger Technologies: UK office, 0202 893535.

Brazil reduces fuel alcohol subsidy

By John Barham in Sao Paulo

THE BRAZILIAN Government has capitulated to the rising costs of maintaining its ambitious alternative fuel policy. On Wednesday ministers reduced the subsidy to consumers of fuel alcohol, ending a year-long wrangle over the policy's future.

For eight years, the Government held alcohol prices 35 per cent below petrol prices but yesterday alcohol prices across the country rose to 69 per cent of the price of petrol.

Fuel alcohol is made from distilled cane sugar but the decision will not affect sugar cane producers immediately and may not even reduce consumption of alcohol.

Professor Eli Pelin, a Sao Paulo University energy economist, explained that "this price adjustment is enough to reduce the cost of the subsidy to the Treasury but is unlikely to be large enough to discourage consumption substantially."

The Government has supported the uneconomic alcohol policy by cross-subsidising consumption from petrol prices and with direct cash subsidies from Petrobras, the national oil monopoly.

The cost of the policy has become unbearable as the Government's budget difficulties worsened and the world oil price sank.

Economists calculate that it costs anywhere between $45 and $60 to produce one barrel of fuel alcohol, more than twice the cost of a barrel of petrol. Much of this cost has been borne by Petrobras, which says it spends $37m a month subsidising alcohol prices.

The cost of the subsidy was one of the factors that forced the resignation earlier this week of Mr Ozires Silva as Petrobras president.

The fuel alcohol programme is the cornerstone of the energy policy which Brazil introduced in the late 1970s to insulate itself from the world energy crisis.

It has been remarkably successful. Brazilian motorists now buy 11bn litres of alcohol a year and 90 per cent of new cars are designed to run on alcohol.

But the programme, as well as being uneconomic, has created a number of curious distortions. In spite of the low price, Brazil still has an alcohol production surplus of 500m litres a year.

But Petrobras is also stuck with a rising petrol surplus. It produces a fixed quantity of petrol from the oil it refines to produce diesel and naphtha.

It must therefore export the petrol Brazilians have stopped buying to consume alcohol which costs twice as much to produce.

Greece dashes hopes for EC farm price settlement

BY TIM DICKSON IN BRUSSELS

HOPES FOR a speedy settlement of the European Community's farm price package have been dashed by the Greek Government's refusal to accept a new compromise on "green" currencies from the European Commission.

Plans for an emergency meeting yesterday of the EC's Agriculture Council – confirmed on Wednesday afternoon by a Community official – were subsequently abandoned when Athens indicated that the offer from the Brussels executive was not enough.

"It's stalemate for the moment," a Commission official said last night. "I have no idea when the next meeting will be arranged."

The apparent intransigence of the Greek Government – expressed first by its dramatic veto last week of a deal agreed by the 11 other member states – comes at an awkward time for the Community. Mr Jacques Delors, the European Commission President, dismissed suggestions at a press conference yesterday that EC Heads of Government would try to resolve the issue at next week's Summit meeting in Hanover, yet with the July 1 start of the agricultural marketing year fast approaching time for further negotiations is running out.

Officials stress that, failing an agreement, the Commission has the authority to impose its own short term measures, though given the growing importance of global negotiations on agricultural subsidies they will be anxious as far as possible to avoid the bad publicity of another EC farm policy crisis.

The Commission is equally determined to keep within the so-called budgetary guideline for farm spending painfully agreed at the Brussels Summit in February. With a margin of just Ecu 20m (£13m) for 1988 and perhaps Ecu 350m for 1989 (based on the Commission's preliminary draft budget) there is precious little room for manoeuvre, and further concessions to the Greeks risk upsetting the delicate balance of the package for other member states.

The "final" package agreed by 11 out of 12 Farm Ministers provided for devaluations of several green currencies, the notional exchange rates which convert common Ecu-denominated farm prices into local money. Mr Yannis Pottakis, the Greek Minister, is insisting, however, on an 18.5-24 per cent devaluation of the green drachma, to take into account the country's high inflation, against the immediate 10 per cent and additional 4.5 per cent from the start of next year which is on the table.

While there is genuine sympathy in Brussels for the Athens case, there is also ill-concealed anger at what are widely seen as Greece's blackmail tactics.

● Mr Bob Hawke, the Australian Prime Minister, criticising US farm subsidies, told Congress yesterday that Australia wanted a "fair go" in trade competition, reports Reuter from Washington.

Auminium price hit by profit-taking

By Kenneth Gooding, mining correspondent

A WAVE of profit-taking yesterday caused the London Metal Exchange price of aluminium to drop sharply from recent record levels.

However, analysts suggest the retreat will be short-lived in the face of the current low stocks, heavy demand and shortages of supply.

The scene seemed set for a further rise in the price yesterday when rumours reached the market that a cargo of aluminium was beached while on the way from the LME's Singapore warehouse to Japan.

But then the selling started in early trading and at no time later in the day was the market able to stage a substantial rally to compensate.

The cash price of standard grade (99.5 per cent pure) aluminium, the most widely traded, fell by £362.50 a tonne to £1,812.50 and the three-month price was down by £117 to £1,672 a tonne.

MR FRANCIS MAUDE, UK Corporate Affairs Minister – pictured above with Mr Derek Whiting, chairman of the International Petroleum Exchange – yesterday formally launched the London-based exchange's revised crude oil contract, writes David Blackwell. He said it would fill a real gap in the market in time zones outside the US.

The New York Mercantile Exchange has established a very successful contract based on West Texas Intermediate crude. The IPE has a successful contract in gas oil, but its previous attempt to launch a crude oil contract in late-1985 did not get off the ground.

The new contract in 1,000 barrels of Brent crude is for cash settlement based on an IPE index of Brent oil prices compiled from specialist trade publications. The index yesterday was set at $15.39 a barrel for August delivery. A total of 629 lots changed hands – "a good, solid start", the exchange said. The September contract traded between $15.80 and $15.65 a barrel.

Timber pact members on collision course

By Ivo Dawnay in Rio de Janeiro

TROPICAL TIMBER producing and consuming countries were yesterday heading for a collision over the extent to which their new trade organisation should launch and finance research and conservation projects.

The issue emerged at the top of the agenda in Rio de Janeiro this week at the opening of the International Tropical Timber Organisation conference – the fourth to be held since the formation of the 42-nation group in April 1985.

Consumer countries represented at the meeting looked set to oppose pressure from producers and environmental lobbyists to back a substantial programme of projects.

Some 50 schemes have been presented for consideration to the 10-day conference ranging from forest management research to pilot projects for improving the exchange of market information.

Rich countries that spend some $6.5bn on tropical timber yearly are reluctant to allow the ITTO to wander far from its brief as essentially a commercial traders group, not least because the bulk of the cost is likely to fall on themselves.

They are backed by some non-governmental organisations such as the United Nations Development groups that argue that forest conservation is better handled through the Tropical Forest Action Plan and other established agreements.

But such views have brought strong opposition from producers who argue that that not enough is being done either to protect or to monitor the world's rapidly depleting timber stocks.

Producers suspect that the shortage of market intelligence is being used by traders to maximise profits.

They are backed by environmentalist groups equally anxious to maximise the emphasis on ecological issues.

Dr Freddy Freezilah, the Malaysian executive director of the ITTO secretariat, denied that the issue would dominate the conference.

"Our object is to strike a balance between conservation and utilisation, he said. "We don't have buffer stocks like other commodity trade groups, so at this stage we are inevitably developmentally orientated."

Dr Freezilah also stressed that the ITTO already had commitments from members to help producers develop their processing capacity where the maximum value is added.

Other areas that needed to be developed were research, forest management and market information exchange. The organisation badly needed to raise its funds which have so far produced less than $4m through voluntary contributions.

Ian Rutledge and Philip Wright on an industry tarnished by violence, smuggling and gangsterism

Colombia aims to polish up emerald image

THE COLOMBIAN Ministry of Mines and Ecominas, the State mining company, are attempting to polish up the image of its emerald industry, which has become a byword for violence, smuggling and gangsterism.

The extent of the problem was illustrated in April by an incident in which the house of an emerald dealer with alleged cocaine connections, in the northern suburbs of Bogota, was attacked with machine guns and dynamite. The dealer escaped but two other occupants of the house were killed.

In previous years gang warfare at the mines, between groups of guaqueros (poor prospectors), has resulted in hundreds of deaths, and last year the Army was sent into the Coscuez mining area after a particularly bloody vendetta in which 11 guaqueros had been murdered.

The reforms currently being imposed on the industry are substantial.

In an effort to improve wasteful and ecologically damaging mining practices Ecominas has begun to monitor periodically the operations of the four large concessionaires and 14 smaller ones to which it subcontracts the various emerald mining zones under its control.

Marketing improvements are also being sought, through the establishment of a national federation of emerald producers and traders, with state support, and the creation of an emerald exchange in Bogota. Ecominas itself will be represented on the federation's committee.

Gemonological equipment is being imported so that correct methods of identifying and classifying the stones can be established, thereby eliminating fraud and laying the basis for an internationally recognised system of certification for Colombian stones.

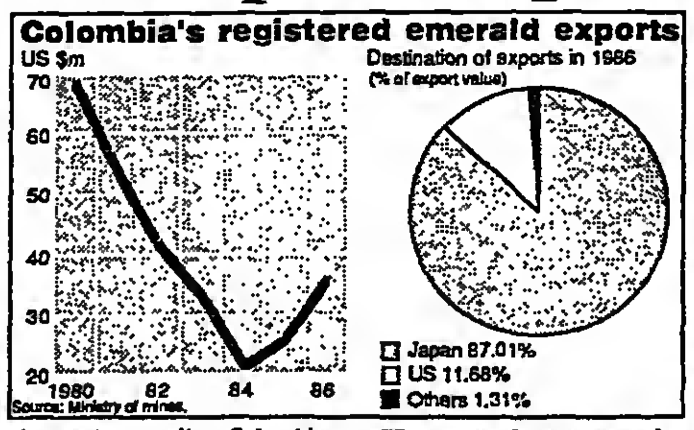
Finally, a cheap and efficient system of export registration has been set up in an attempt to regularise a trade which has hitherto been conducted largely on an "informal" basis.

The principal emerald mining areas are at Muzo and Coscuez, about 100 km north of Bogota in the department of Boyaca, and at Chivor, about 80 km northeast of Bogota.

The mines are of almost legendary repute: the Muzo mine remained hidden from the invading Spaniards until, so the story goes, a huge emerald became embedded in the hoof of a Spanish officer's horse. The Coscuez mine, originally worked by the Spaniards with Indian serfs, was later abandoned after a mining disaster and was not rediscovered until 1850.

At various times during this century Muzo, Coscuez and Chivor may have produced as much as 95 per cent of the World's quality emeralds. More recently good quality emeralds have been mined and exported from southern Africa (Zambia, Zimbabwe and South Africa) but London jewellers still concede that a top quality Colombian emerald will command a higher price than a top quality African stone. Indeed, while emeralds as a whole can vary enormously in quality (depending upon their colour, lustre and the number of flaws – called "inclusions" or "jardin") an emerald of the finest quality can be priced, per carat, considerably more than a diamond.

Although Colombia made a previous attempt to rationalise and modernise the methods of exploring for and mining emeralds with the assistance of a United Nations project in 1969, the mass invasion of guaqueros into the mining areas in the 1970s, and the ensuing violent conflicts between miners for control of the diggings has culminated in the state of near gangsterism which still prevails today.



When one of us expressed a desire to visit Muzo of Chivor he was warned in the strongest terms by Colombian colleagues not to even consider it.

The methods of mining have remained crude and inefficient. Prospectors have deforested huge areas and dumped vast amounts of earth into nearby streams and rivers in the unplanned open-cast excavations. In the more capital intensive operations bulldozers are used on a series of benches, or levels, to slice off a thin layer of earth (no more than 30 cm at a time) in the hope of uncovering emerald crystals. If emeralds are discovered the area is closed off, covered-up and guarded until the contractors arrive to chip out the crystals by hand.

After elaborate security measures the stones are flown by helicopter to Bogota to avoid the ambushes which used to be frequent when they were moved by road.

Less common methods of extraction involve the sinking of primitive shafts or the driving of tunnels into hillsides, and the guaqueros also rework the tailings from the larger contractors in the hope of finding stones that have remained undiscovered.

The problem with the traditional methods of working is that there is no separation of exploration and mining with the result that unnecessarily large areas of hillside and jungle are devastated in a sometimes fruitless search for the stones.

At Muzo an additional problem is that waste earth shifted from the higher levels of the open-pit mines which are now nearly exhausted, has been dumped in the lower levels, partially sterilising potentially rich workings.

Equally serious problems remain in the field of marketing. For the period from August 1986 to June 1987 the value of Colombian emerald exports is officially put at $43.5m. However, the Ministry of Mines acknowledges that this relates only to emerald exports registered with Ecominas (going mainly to Japan) and the true value of exports is probably between $150m and $200m, the difference being "informal" trade. This is little consolation to the Colombian Government which would dearly like to see an industry with a total output value estimated at around 10 per cent of national mineral production, fully and accurately recorded in its international trade statistics and the foreign exchange earned in the hands of the state bank.

According to official statistics the quantity of emeralds exported (by carat weight) has increased from 395,193 in 1984 to 886,448 in 1987. However, not only do these official figures fail to show the true picture but they also unfortunately show a considerable variation in unit values. Indeed over the past ten years the unit value (per carat) of "official" emerald exports has varied between a low of $32.66 in 1983 and a maximum of $251.23 in 1980.

Between 1980 and 1983, when the industry registered a significant increase in exports by weight, revenue actually fell from $69.1m to $33m. That probably reflected not so much a fall in price as a reduction in quality as larger numbers of low calibre stones were sold.

More recently there appears to have been some genuine rise in emerald prices within Colombia itself, but the major problem still remains that the industry fails to capture the immense value added which is created at the later stages of commercialisation. A rough comparison made with data for the early 1980s suggests that the value of Colombian emeralds imported into the US increased on average 30 to 40 times between the import stage and final retail.

The authors are partners in Sheffield Energy and Resources Information Services (Seris)

WORLD COMMODITIES PRICES

LONDON MARKETS

COCOA PRICES closed at the day's highs, supported by lower sterling versus the dollar, arbitrage buying against New York and shortcovering after the market's recent fall to five-week lows which had taken the September contract to £891 a tonne, dealers said. The reiteration this week by the Ivory Coast, the world's leading producer, of its policy of not selling into the current market also helped. Supplies of good quality cocoa remain tight. On the LME zinc prices were *affected in morning trading by the* shake-out in aluminium prices. Three-month zinc fell as low as £757 a *tonne before recovering in the afternoon* to close up £6.50 at £780.50 a tonne. The dollar equivalent closed at $1.367 – still above the $1.350 European Producer Price which was set by some producers on Wednesday and followed up by most others yesterday. Traders said the market's sound fundamental background remained unaltered.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$13.65-3.70z	+0.13
Brent Blend	$15.23-5.30u	+0.09
W.T.I. (1 pm est)	$15.93-6.00u	+0.015

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$185-187	
Gas Oil (Soviet)	$151-133	
Heavy Fuel Oil	$68-69	+1.5
Naphtha	$150-152	+2
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$449.25	+0.25
Silver (per troy oz)♣	703c	-2
Platinum (per troy oz)	$564.75	-2.80
Palladium (per troy oz)	$126.50	-1.00
Aluminium (free market)	$3100	-790
Copper (US Producer)	117⅞-119c	+2.0
Lead (US Producer)	36.0c	
Nickel (free market)	730c	+30
Tin (European free market)	£4097.5	+52.5
Tin (Kuala Lumpur market)	18.19r	+0.03
Tin (New York)	332.5c	-0.5
Zinc (Euro. Prod. Price)	$1337.5	+167.5
Zinc (US Prime Western)	63.5c	
Cattle (live weight)†	113.84p	-0.07*
Sheep (dead weight)†	165.27p	-18.47*
Pigs (live weight)†	70.54p	-6.03*
London daily sugar (raw)	$283.4x	-5.6
London daily sugar (white)	$280.5x	-2.0
Tate and Lyle export price	£270.5	-1.5
Barley (English feed)	Unq.	
Maize (US No. 3 yellow)	£139u	
Wheat (US Dark Northern)	£127.0x	+2.0
Rubber (spot)♥	75.50p	-1.5
Rubber (July)♥	81.00p	-1.5
Rubber (Aug)♥	81.50p	-1.5
Rubber (KL RSS No 1 July)	365.5m	-7.0
Coconut oil (Philippines)§	$660x	
Palm Oil (Malaysian)§	$545.0x	
Copra (Philippines)§	$430	-10
Soyabeans (US)	Unq.	
Cotton "A" index	71.3c	-0.5
Woollops (64s Super)	650p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. u-July. x-Jul/Aug. s-Jul/Sep. z-Aug. y-Jun/Jul. q-Sep. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low	
Jly	907	892	910	896
Sep	930	915	930	919
Dec	944	935	946	936
Mar	963	957	967	960
May	982	976	984	979
Jul	1002	994	1002	1000
Sep	1020		1022	1016

Turnover: 6911 (5970) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 22: 1186.23 (1176.91). 10 day average for Jun 23: 1193.66 (1195.37)

COFFEE £/tonne

	Close	Previous	High/Low	
Jly	1113	1118	1117	1110
Sep	1128	1130	1133	1126
Nov	1143	1147	1147	1140
Jan	1158	1159	1159	1153
Mar	1180	1171	1172	1168
May	1190	1185	1182	1179

Turnover: 2476 (1449) lots of 5 tonnes
ICO indicator prices (US cents per pound) for June 23: Comp. daily 1979 119.20 (119.82): 15 day average 120.47 (120.32).

SUGAR $ per tonne

Raw	Close	Previous	High/Low	
Aug	253.40	258.00	268.00	252.20
Oct	243.20	246.80	247.80	242.60
Dec	242.80	245.00	246.00	243.00
Mar	237.40	241.40	241.80	237.00
May	234.40	236.60	236.80	233.80
Aug	233.00	239.00		
Oct	234.00	239.00	235.60	235.60

White	Close	Previous	High/Low	
Aug	276.00	277.00	282.00	271.50
Oct	269.00	271.00	274.00	269.00
Dec	270.00	272.00	270.00	268.00
Mar	270.00	272.00	272.00	270.00
May	272.00	272.00	272.00	
Oct	273.00	272.00	273.00	

Turnover: Raw 949 (4240) lots of 50 tonnes; White 1298 (811).
Paris- White (FFr per tonne): Aug 1650, Oct 1610, Dec 1610, Mar 1620, May 1620, Aug 1630

GAS OIL $/tonne

	Close	Previous	High/Low	
Jul	133.50	133.00	135.00	133.50
Aug	133.00	132.50	134.75	133.00
Sep	134.25	134.00	136.00	134.25
Oct	135.75	135.50	137.00	135.75
Nov	136.75	135.25	136.75	
Dec	138.00	137.00	138.25	138.00
Jan	138.75		139.00	138.75

Turnover: 4991 (5612) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low	
Jly	107.75	107.75	108.30	107.75
Sep	108.20	108.00	100.50	108.20
Nov	110.65	110.60	111.50	110.65
Jan	113.50	113.50	114.75	113.50
Mar	115.30	115.45	116.05	115.30
May	117.50	117.50	118.05	117.50

Barley	Close	Previous	High/Low	
Sep	102.65	102.60	103.10	102.65
Nov	105.70	105.40	106.00	105.70
Jan	108.75	108.45	109.20	108.75
Mar	110.65	110.75	111.15	110.85
May	112.30	112.40	112.80	112.30

Turnover: Wheat 562 (480), Barley 110 (100) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 0 tonne
Cash	3190-210	3880-900		3180-200		
3 months	2990-3010	3220-40		2980-3000	2380-400	5,816 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 44,550 tonne
Cash	1810-5	2170-80		1795-805		
3 months	1671-3	1788-90	1800/1653	1667-70	1670-5	50,609 lots
Copper, Grade A (£ per tonne)						Ring turnover 42,425 tonne
Cash	1430-2	1446-50	1430/1422	9429-30		
3 months	1341-2	1358-7	1355/1330	1345-6	1331-2	68,619 lots
Copper, Standard (£ per tonne)						Ring turnover 100 tonne
Cash	1370-5	1360-80	1375	1370-5		
3 months	1295-305	1305-15		1300-10		57 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	697-9	700-3		690-3		
3 months	710-3	713-6		703-5	705-10	710 lots
Lead (£ per tonne)						Ring turnover 8,200 tonne
Cash	376-7	387-8	378	377-9		
3 months	370-1	380-1	385/367	373-4	369-70	12,358 lots
Nickel ($ per tonne)						Ring turnover 1,862 tonne
Cash	16350-450	16500-700	16300	15400-500		
3 months	15700-80	13800-1900	16000/15700	15800-900	15700-50	5,739 lots
Zinc (£ per tonne)						Ring turnover 12,225 tonne
Cash	820-2	823-5		810-5		
3 months	780-1	773.75-4.25	782/757	768-8	778-8	22,438 lots

POTATOES £/tonne

	Close	Previous	High/Low	
Feb	109.0	105.0	105.0	
Apr	153.0	149.9	154.5	152.1
May	163.5	160.0	164.0	163.0

Turnover: 307 (434) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low	
Aug	204.00	202.00	208.00	202.00
Oct	204.00	201.00	208.00	200.00
Dec	205.00	205.00	206.00	
Feb	209.00	210.00	211.00	

Turnover: 254 (2309) lots of 100 tonnes.

FREIGHT FUTURES $10/Index point

	Close	Previous	High/Low	
Jly	1219.0	1240.0	1230.0	1215.0
Oct	1380.0	1421.0	1423.5	1378.0
Jan	1415.0	1455.0	1430.0	1405.0
Apr	1445.0	1473.0	1480.0	1440.0
Jul	1203.0	[illegible]	1220.0	1203.5
BFI	1244.5	[illegible]		

Turnover: 608 (608)

Silver fix	p/fine oz	US cts equiv
Spot	399.15	699.35
3 months	408.35	712.85
6 months	417.75	726.35
12 months	438.55	757.85

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	449-449¼	255¼-256
Opening	447¾-448¼	254-254½
Morning fix	447.60	254.416
Afternoon fix	447.80	254.157
Day's high	449¼-449¾	
Day's low	447¼-447¾	

Coins	$ price	£ equivalent
US Eagle	462½-467½	263-266
Maple leaf	462½-467½	263-265
Britannia	462½-467½	263-268
Krugerrand	448-451	254-257
1/2 Krug	235-244	133¼-138¾
1/4 Krug	117-125	66½-71¼
Angel	460-465	261¾-264⅝
1/10 Angel	47-52	26¾-29⅝
New Sov.	105½-106½	60-60¾
Old Sov.	105½-107	60-61
Noble Plat	579.4-586	329.45-332.2

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	July	Sept	July	Sept
2907	304	359	64	212
3000	238	309	98	260
3200	135	225	195	373

Aluminium (99.5%)	Calls		Puts	
2900	252	316	90	242
3000	193	270	132	294
3200	108	194	244	415

Copper (Grade A)	Calls		Puts	
2250	257	233	16	151
2350	179	165	38	202
2450	115	145	74	261

FRUIT AND VEGETABLES
NEW ARRIVALS this week include homegrown gooseberries, 45-65p, and raspberries 90p-£1.20 a quarter pound, reports FFVIB. Kilo punnets of peaches are also more widley available at 70p-£1.00 (80p-£1.10). Plums are now more plentiful, 50p-£1.00, (75p-£1.20), as are paw paws from Brazil and Jamaica, 80p -£1.30 (£1.00-1.50), while bananas remain stable at 32-55p. Cauliflowers are down to 35-60p (50-85p) following perfect growing conditions recently and new crop carrots are more widley available 20-35p (25-40p). Courgettes remain 40-60p, with new arrivals from Jersey this week. Salad prices remain stable with top quality British Iceberg lettuce, 50-90p, round lettuce, 17-25p, tomatoes, 40-60p, and watercress 30-40p. Spring onions are still 20-45p and cucumbers stay the same at 25-55p.

US MARKETS

THE PRECIOUS METALS opened lower on overseas, trade and local selling, but *failure to break support areas prompted* a short-covering rally, reports Drexel Burnham Lambert. Copper was weak on long-liquidation. Crude oil was under light pressure, mainly on spread trading against the products which were firm on the day. Coffee eased on trade, speculative and fund selling, in the face of light industry short-covering and price-fix buying. Cocoa was featureless. The grains finished a nervous day mixed. Forecasts of light rains and lower temperatures saw maize and the *soyabean complex ease after strong* openings. Soyameal fell in response to weaker European values, while wheat underwent a modest rally on reports of increased export business. The meats were all sharply lower, hogs and cattle as a result of increased sales by farmers, and bellies as a result of continued high storage stocks. The declines were reinfoced by sharply lower cash values.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jun	447.7	449.5	449.5	446.8
Jul	450.0	[illegible]	0	0
Aug	450.9	453.0	451.1	449.5
Oct	456.2	458.0	458.2	455.0
Dec	461.5	463.3	463.5	460.0
Feb	466.8	468.6	468.3	465.4
Apr	472.4	474.5	472.5	472.5
Jun	478.0	480.1	479.5	478.5
Aug	483.7	485.8	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jun	563.7	565.5	0	0
Jul	564.8	567.8	574.0	564.0
Oct	570.5	573.8	580.0	570.0
Jan	576.8	580.0	585.5	576.0
Apr	583.6	587.4	592.0	585.0
Jul	591.2	595.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jun	693.7	695.5	0	0
Jul	698.5	700.0	700.0	693.5
Aug	700.0	[illegible]	[illegible]	[illegible]
Sep	703.4	[illegible]	[illegible]	[illegible]
Dec	713.5	[illegible]	717.0	710.0
Jan	[illegible]	[illegible]	[illegible]	[illegible]
Mar	723.6	727.2	[illegible]	[illegible]
May	728.5	732.1	[illegible]	[illegible]
Jul	734.2	737.7	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	111.75	112.30	[illegible]	[illegible]
Jul	108.75	110.30	108.90	107.00
Aug	105.20	106.50	0	0
Sep	101.60	103.30	102.10	100.35
Dec	92.40	95.10	94.30	93.00
Jan	90.75	92.85	0	0
Mar	86.50	87.55	87.00	85.10
May	85.50	[illegible]	[illegible]	[illegible]
Jul	84.40	[illegible]	[illegible]	[illegible]
Sep	80.05	82.00	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	16.37	16.44	16.52	16.31
Sep	16.57	16.59	16.65	16.52
Oct	16.75	16.72	16.80	16.65
Dec	16.96	16.86	16.98	16.85
Jan	16.93	16.88	16.94	16.85
Feb	16.96	16.89	16.96	16.92
Mar	16.90	16.91	0	0
Apr	16.89	16.93	16.92	16.89
May	16.93	16.93	16.93	16.93

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jul	4370	4362	4400	4360
Aug	4425	4412	4450	4410
Sep	4500	4489	4520	4485
Oct	4580	4571	4600	4570
Nov	4675	4651	4680	4650
Dec	4750	4729	4765	4730
Jan	4765	4767	4785	4770
Feb	4800	4774	4800	4785
Mar	4630	4624	4640	4630

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	1524	1523	1525	1812
Sep	1530	1535	1538	1520
Dec	1541	1547	1549	1535
Mar	1569	1579	1577	1566
May	1592	1599	1598	1587

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	133.23	135.49	135.70	133.10
Sep	134.62	137.48	137.50	134.50
Dec	135.40	138.42	138.35	135.35
Mar	135.00	138.45	138.25	135.80
May	136.25	138.50	138.50	136.00
Jul	137.63	137.86	0	0
Sep	137.40	137.86	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	10.94	11.15	11.18	10.85
Oct	10.78	10.98	10.98	10.76
Jan	10.38	10.65	10.75	10.76
Mar	10.51	10.68	10.68	10.50
May	10.40	10.59	10.52	10.35
Jul	10.36	10.51	10.54	10.51
Oct	10.36	10.47	10.55	10.35

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	66.40	68.40	68.90	66.40
Oct	65.80	67.80	68.30	65.80
Dec	64.81	66.81	67.30	64.81
Mar	65.50	67.40	67.85	65.40
May	65.62	67.82	67.00	65.62
Jul	67.50	67.90	67.80	67.50
Oct	65.75	65.62	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	177.25	175.00	177.50	174.90
Sep	175.00	172.55	175.80	172.80
Nov	163.15	168.50	168.45	166.50
Jan	163.65	162.25	163.65	161.85
Mar	163.65	151.86	163.65	161.75
May	163.50	151.35	163.00	161.75
Jul	162.75	160.75	0	0
Sep	162.75	160.75	0	0
Nov	162.75	160.75	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

June 22	June 21	mnth ago	yr ago
1977.1	1958.7	1800.6	1602.2

DOW JONES (Base: December 31 1974 = 100)

Spot	142.29	143.44	135.45	126.86
Futures	145.53	146.18	136.68	124.16

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	1032/4	1054/4	1069/4	1026/0
Aug	1025/4	1049/0	1060/4	1026/0
Sep	1012/4	1025/4	1070/0	1010/0
Nov	982/0	1010/4	1034/0	980/0
Jan	981/2	1000/0	1034/0	981/0
Mar	975/0	988/0	1023/0	970/0
May	952/4	954/4	995/0	952/0
Jul	937/4	955/4	985/0	935/0
Aug	900/0	915/0	931/0	900/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	31.02	30.72	32.22	30.70
Aug	31.10	30.72	32.22	30.80
Sep	31.20	80.92	32.42	30.96
Oct	31.45	30.95	32.45	31.05
Dec	31.37	30.95	32.45	31.00
Jan	31.00	30.65	32.00	30.75
Mar	30.65	30.35	31.65	30.00
May	30.35	29.42	30.92	29.50
Jul	28.10	28.00	29.20	28.50

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	318.2	325.0	336.5	315.0
Aug	307.7	319.5	329.5	307.5
Sep	303.0	316.7	325.0	302.0
Oct	299.7	314.5	322.0	299.5
Dec	295.7	310.5	318.0	295.5
Jan	291.5	305.7	313.0	291.0
Mar	285.0	300.0	308.0	285.0
May	282.0	297.0	304.0	282.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	348/0	344/4	354/4	347/0
Sep	350/0	351/4	361/4	349/0
Dec	351/0	355/6	365/6	350/0
Mar	351/2	356/4	366/4	350/4
May	350/4	354/2	364/2	350/0
Jul	343/4	348/0	358/0	343/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	390/4	383/0	402/0	380/0
Sep	391/4	394/0	410/4	390/0
Dec	397/4	401/4	419/0	395/0
Mar	396/4	402/0	418/0	395/0
May	385/0	385/0	400/0	385/0
Jul	365/0	365/0	380/0	365/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	62.22	63.32	63.20	61.82
Oct	63.02	63.92	63.70	62.42
Dec	66.82	67.47	67.50	66.00
Feb	69.50	70.37	70.42	69.40
Apr	72.62	72.97	72.90	72.10
Jun	70.60	70.22	70.75	69.80
Aug	71.40	0	72.00	71.40

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Jul	44.40	45.90	45.75	44.40
Aug	44.05	45.30	45.00	43.80
Oct	42.37	43.12	42.90	41.70
Dec	45.30	46.60	46.90	46.20
Feb	30.17	60.25	50.77	80.00
Apr	50.00	50.00	50.80	49.75
Jun	50.45	49.80	51.10	49.75

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	40.00	42.00	41.55	40.00
Aug	40.15	42.15	41.80	40.15
Feb	62.07	63.20	62.80	61.45
Mar	61.40	62.47	62.30	61.00
May	61.15	62.55	62.95	61.15
Jul	61.35	61.80	63.25	61.35

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar pauses for breath

THE DOLLAR'S failure to hold above key resistance levels encouraged investors to take profits in currency markets yesterday. The US unit never managed to match the highs touched overnight in Tokyo, and with growing concern that central banks may be waiting in the wings to control the rise, investors were encouraged to take their profits.

This meant that the dollar was still facing resistance levels of DM1.80 and Y129.0. *However it* still finished at an eight-month high against the D-Mark. Confidence in the dollar during the morning was strengthened after the release of a report by the Japanese economic planning agency, which saw no dangers of accelerated inflation in the US. This was underlined later by revisions to the first quarter price deflator - a measure of inflation - which fell to an annualised rate of 1.4 p.c. from 1.7 p.c. at the previous estimate.

Despite the set back, the dollar's undertone remained firm. However some dealers suggested that it was overbought, and that the main concern of central banks was to avoid sending the dollar sharply lower and risk triggering a steep fall in US equities.

The dollar rose to DM1.7860 from DM1.7790, having touched at high of DM1.7935. It failed to *break through Y129 but finished* close to it at Y128.65, unchanged from Wednesday. Elsewhere, it rose to FFr6.0150 from FFr5.9850 and SFr1.4780 compared with SFr1.4735. On Bank of England figures, the dollar's exchanga rate index rose from 95.3 to 95.4.

Sterling briefly tested the DM3.15 level against the D-Mark, but the proximity of May's UK trade figures, due on Monday, encouraged most investors to reduce their holdings. While there were no obvious signs of interventioo by the Bank of England, the authorities had bought small amonnts of *D-Marks on Wednesday, and the* DM3.15 level was generally regarded as a ceiling for the time being.

Higher interest rates failed to provide much support and the pound slipped to DM3.1375 from DM3.1475 and Y226.00 compared with Y227.50. It was also weaker against the dollar at $1.7570 from $1.7685. Elsewhere it slipped to SFr2.5975 from SFr2.6050 and FFr10.5675 against FFr10.5850. Its exchange rate index closed at 76.1, down from 76.3 at the opening and 76.5 on Wednesday.

The D-Mark opened weaker against the yen, slippiog to Y72.14 from Y72.27 on Wednesday. However the yen's appreciation could be restricted, as many investors already hold long yen/short D-Mark positions. Thare has also been no corresponding increase in Japanese interest rates after the rise in West German rates.

This is highlighted by a narrowing of the interest differential between Euro-yen and Euro-marks to just a quarter of a point in the yen's favour, from three-quarters of a point just a week ago. However the yen retained a firm undertone, and the D-Mark *slipped further to Y72.03.*

The dollar was fixed at DM1.7918 in Frankfurt from DM1.7665 on Wednesday, and the Bundesbank sold $87.7m at the fixing.

Elsewhere the Swiss franc also improved at the D-Mark's expense, rising to DM1.2085 from DM1.2045. The French franc recovered from an eight-month low against the dollar in Paris without any assistance by the Bank of France. The dollar had risen to a fixing of FFr6.0410, but came back to FFr6.0030 in the *afternoon. The D-Mark traded* within a narrow range, failing to benefit from a widening of interest rate differentials between French and West German rates.

£ IN NEW YORK

June 23	Latest	Previous Close
£ Spot	1.7565-1.7570	1.7655-1.7680
1 month	0.15-0.14pm	0.155-0.14pm
3 months	0.60-0.57pm	0.59-0.57pm
12 months	2.48-2.38pm	2.39-2.35pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June 23	Previous
8.30 am	76.3	76.3
9.00 am	76.4	76.3
10.00 am	76.4	76.3
11.00 am	76.2	76.3
Noon	76.1	76.3
1.00 pm	76.0	76.5
2.00 pm	76.1	76.5
3.00 pm	76.1	76.4
4.00 pm	76.1	76.5

CURRENCY RATES

June 23	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.755739	0.662064
U.S Dollar	6	1.34053	1.16139
Canadian $	8.75	1.62258	1.40134
Austrian Sch.	3	16.6360	14.6254
Belgian Franc	6½	49.7035	43.5203
Danish Krone	7½	8.99160	7.90443
Deutsche Mark	2½	2.36805	2.07889
Neth. Guilder	3¼	2.67436	2.34160
French Franc	9½	8.00229	7.00319
Italian Lira	12½	1758.91	1542.15
Japanese Yen	2½	170.180	149.587
Norway Krone	8	8.55794	7.50433
Spanish Peseta	-	156.625	137.428
Swedish Krona	8½	8.19801	7.18031
Swiss Franc	2½	1.96656	1.72060
Greek Drach.	20½	189.283	166.021
Irish Punt	-	0.884138	0.773333

*All SDR rates are for June 22

CURRENCY MOVEMENTS

June 23	Bank of England Index	Morgan** Guaranty Changes %
Sterling	76.1	-16.4
U.S Dollar	95.4	-12.1
Canadian Dollar	84.4	-2.7
Austrian Schilling	135.6	+9.8
Belgian Franc	98.5	-5.0
Danish Krone	90.8	+1.6
Deutsche Mark	145.4	+21.1
Swiss Franc	171.0	+22.1
Guilder	135.9	+13.9
French Franc	[illegible]	[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June 23	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.5203	+2.50	+1.10	±1.5344
Danish Krone	7.85212	7.90443	+0.67	-0.73	±1.5404
German D-Mark	2.05853	2.07889	+0.99	-0.41	±1.0981
French Franc	6.90403	7.00319	+1.44	+0.04	±1.3674
Dutch Guilder	2.31943	2.34160	+0.96	-0.44	±1.5012
Irish Punt	0.768411	0.773333	+0.64	-0.76	±1.6684
Italian Lira	1483.58	1542.15	+3.95	-3.15	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

June 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7515-1.7600	1.7565-1.7575	0.16-0.13cpm	0.99	0.64-0.59pm	1.40
Canada	2.1125-2.1380	2.1140-2.1150	0.01-0.09cdis	-0.28	par-0.12dis	-0.11
Netherlands	3.53-3.56	3.53-3.54	1⅝-1½cpm	4.67	4½-4pm	4.81
Belgium	65.60-66.00	65.65-65.75	22-8cpm	2.74	59-42pm	3.07
Denmark	11.91¼-11.99	11.92-11.93	⅜orepm-⅞oredis	-	2⅞-2⅞dis	-0.86
Ireland	1.1655-1.1730	1.1665-1.1666	0.14-0.20pdis	-1.23	0.50-0.66dis	-1.39
W. Germany	3.13¼-3.15¼	3.13½-3.14	1¼-1⅛pfpm	4.30	4¼-3½pm	4.86
Portugal	252.95-256.45	255.40-256.40	29-59cdis	-2.06	137-240dis	-2.95
Spain	206.98-208.80	206.90-207.20	12-32cdis	-1.28	30-53dis	-0.80
Italy	2322¼-2336	2327½-2328½	1-6liredis	-1.80	6-12dis	-1.72
Norway	11.33-11.35½	11.34-11.35	3½-4½oredis	-4.23	10¾-11⅝dis	-3.88
France	10.55-10.61¼	10.56¼-10.57¼	1⅝-⅛cpm	1.35	4¼-3¼pm	1.61
Sweden	10.83-10.89	10.84½-10.85½	1½-2oredis	-1.94	2¾-4dis	-1.27
Japan	225½-227¼	225½-226¼	1-½ypm	3.98	2¾-2½pm	4.65
Austria	22.05-22.12	22.09-22.12	9½-7⅛gropm	4.55	28-24⅞pm	4.78
Switzerland	2.59-2.60½	2.59¼-2.60¼	1⅛-⅝cpm	5.20	4-3½pm	5.68

Belgian rate is convertible francs. Financial franc 65.95-66.05. Six-month forward dollar 1.38-1.33cpm 12 months 2.56-2.46cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

June 23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7515-1.7600	1.7565-1.7575	0.16-0.13cpm	0.99	0.64-0.59pm	1.40
Ireland†	1.4980-1.5080	1.5055-1.5066	0.12-0.19cdis	-1.24	0.37-0.52dis	-1.18
Canada	1.2020-1.2125	1.2035-1.2045	0.12-0.14cdis	-1.29	0.44-0.47dis	-1.51
Netherlands	2.0060-2.0185	2.0115-2.0125	0.65-0.63cpm	3.81	1.77-1.73pm	3.47
Belgium	37.20-37.55	37.30-37.40	6.00-5.00cpm	1.76	17.50-15.50pm	1.76
Denmark	6.75⅜-6.82⅝	6.78⅝-6.79	0.25-0.75oredis	-0.88	1.10-1.60dis	-0.79
W. Germany	1.7800-1.7935	1.7855-1.7865	0.55-0.52pfpm	3.59	1.63-1.58pm	3.59
Portugal	145½-146	145⅛-145¼	32-47cdis	-3.25	120-170dis	-3.98
Spain	117.70-118.50	117.85-117.95	15-25cdis	-2.03	57-67dis	-2.10
Italy	1320½-1329¼	1324¼-1325¼	2.70-3.20liredis	-2.67	9.00-10.00dis	-2.86
Norway	6.42¼-6.47½	6.45½-6.46	2.65-2.85oredis	-5.10	8.25-8.45dis	-5.17

FINANCIAL FUTURES

Gilts and short sterling weak

STERLING BASED contracts lost ground in yesterday's Liffe market, as sterling's continued weakness put upward pressure on *interest rates.*

Three-month sterling deposits reacted to a further rise in cash rates amid a growing feeling that another rise could not be ruled out. A slightly stronger opening was soon erased, and the September contract fell to 90.14 at the close, down from 90.34 at the start and 90.31 on Wednesday.

Long gilt futures were traded heavily, over 28,000 lots changing hands in the September contract. Investors appeared less than comfortable holding long positions, *especially ahead of UK* trade figures due for release on Monday. The September price opened at 95-28 but broke through support levels, finishing at the day's low of 94-31, down from 95-22 previously.

US Treasury bonds moved higher in early trading, reflecting continued institutional demand, particularly from Japan, although trading volume at just over 12,000 lots was down considerably from Wednesday. A strong *dollar and receding* concern over inflation ensured a steady initial demand for US denominated paper.

However the mood changed as the dollar lost direction during the afternooo, and orices came back to finish little changed from opening levels, although these still showed an improvement over Wednesday's close.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
88	702	717	4	9
90	508	531	10	23
92	321	358	23	50
94	149	225	51	117
96	44	124	146	216
98	14	46	316	338
100	4	21	506	513

Estimated volume total, Calls 1341 Puts 6441
Previous day's open int. Calls 23086 Puts 28047

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
82	649	630	17	54
84	463	501	31	125
86	325	349	57	209
88	204	246	136	306
90	109	158	241	418
92	37	118	405	542
94	20	53	552	713

Estimated volume total, Calls 24 Puts 112
Previous day's open int. Calls 542 Puts 845

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements JUL	Puts-settlements Jun	Puts-settlements JUL
17500	1315	1426	0	11
18000	815	965	0	50
18500	315	572	0	157
19000	0	286	185	371
19500	0	118	685	703
20000	0	39	1185	1124
20500	0	—	1685	—

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 20 Puts 135

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS 60,528

A = Ask B = Bid C = Call P = Put

BASE LENDING RATES

	%		%		%
ABN Bank	9	Citibank NA	9	Nat Bk. of Kuwait	9
Adam & Company	9	City Merchants Bank	9	NatWestminster	9
AAB - Allied Arab Bk	8½	Clydesdale Bank	9	Northern Bank Ltd	9
Allied Irish Bank	9	Comm Bk N. East	9	Norwich Gen. Trust	9
Henry Ansbacher	9	Co-operative Bank	*9	PK Finans. Int(UK)	9
ANZ Banking Group	8½	Coutts & Co	9	Provincial Bank PLC	10
Associates Cap Corp	10	Cyprus Popular Bk	9	R. Raphael & Sons	9
Authority Bank	9	Dunbar Bank PLC	8½	Roxburghe G'rantee	9½
B & C Merchant Bank	9	Duncan Lawrie	9	Royal Bk of Scotland	8½
Banco de Bilbao	9	Equatorial Bank plc	8½	Royal Trust Bank	9
Bank Hapoalim	9	Exeter Trust Ltd	9½	Smith & Williamson Secs.	9
Bank Leumi (UK)	9	Financial & Gen. Sec.	8½	Standard Chartered	9
Bank Credit & Comm	9	First National Bank Plc	8½	TSB	9
Bank of Cyprus	8½	● Robert Fleming & Co.	9	UDT Mortgage Exp	§9.4
Bank of Ireland	8½	Robert Fraser & Ptnrs.	9½	United Bk of Kuwait	9
Bank of India	9	Girobank	9	United Mizrahi Bank	9
Bank of Scotland	9	Grindlays Bank	8½	Unity Trust Bank Plc	9
Banque Belge Ltd	9	● Guinness Mahon	9	Western Trust	9
Barclays Bank	8½	HFC Bank PLC	9	Westpac Bank Corp.	9
Benchmark Bank PLC	9	● Hambros Bank	9	Whiteaway Laidlaw	9½
Berliner Bank AG	9	Heritable & Gen Inv Bk	9	Yorkshire Bank	9
Brit Bk of Mid East	9	● Hill Samuel	§9		
● Brown Shipley	9	C. Hoare & Co.	9		
Business Mtge Tst	9½	Hongkong & Shangh	9		
CL Bank Nederland	9	Lloyds Bank	9		
Central Capital	9	Meghraj Bank Ltd	9		
● Charterhouse Bank	9	Midland Bank	8½		
		Mount Bnkg Corp.	9		

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MONEY MARKETS

UK rates still firm

UK INTEREST rates are likely to continue their upward trend, according to many traders in the London money market yesterday.

The case seems finely balanced. On the one hand the Bank of England has made it clear that the recent rise in base rates is designed to control inflation, implying that a rise in the pound would not necessarily bring about lower rates. But the continued weakness of sterling, and the possibility of an accelerated decline, if May's trade figures are bad, could prompt another rise in rates. Three-month interbank money yesterday rose to 9¼-9⅛ p.c. up from 9⅛-9 p.c.

UK clearing bank base lending rate 9 per cent from June 22

The Bank of England forecast a shortage of around £150m with factors affecting the market including repayment of late assistance and bills maturing in official hands, together with a take up of Treasury bills draining £324m. Banks brought forward balances £105m below target and there was a rise in the note circulation of £75m. These were partly offset by Exchequer transactions, which added £340m.

The forecast was revised to a shortage of around £100m, but there was no assistance given in the morning. A further forecast took the shortage to around £150m, and the Bank gave help in the *afternoon* of £85m through outright purchases of eligible bank bills in band 4 at 8⅞ p.c. Late assistance came to £20m, making a total of £105m.

In Frankfurt, the D-Mark's continued decline started to place further upward pressure on interest rates. Tuesday's quarter point increase in the Bundesbank's sale and repurchase rate may be followed by a rise in the *discount* rate, dealers suggested.

The discount rate was changed in December last year. At that time it was cut to a record low of 2.5 p.c. in the wake of the October crash. A rise back to 3 p.c. would only bring it more into line with prevailing market rates, but could provide a psychological boost for the D-Mark.

Howaver the Bundesbank remains vulnerable and sensitive to outside criticism, and may prefer to continue supporting the D-Mark through direct intervention in currency markets. Bnt this too brings its own problems. The Bank has consistently been over generous in its sale and repurchase allocations, because of the persistent drain on domestic liquidity as the Bank sells dollars and buys D-Marks. Even so, commercial banks may still find it difficult to meet their end of month minimum reserve requirements with the Bundesbank.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Allied Dunbar Unit Tsts PLC

Growth & Income	155.8	166.1	+1.5	5.41
Capital	257.2	272.6	+2.7	2.91
Balanced	424.3	450.0xd	+4.4	3.28
Accumulator	654.9	694.2	+7.3	1.09
Income Trusts				
American Income	28.4	30.2	+0.5	4.01
High Income	302.7	320.9	+2.9	4.62
Equity Income	179.9	190.7	+1.5	4.10
High Yield	177.8	188.5	+1.8	4.90
Govt Securities	30.2	31.9	----	7.80
International Trusts				
Amer Spec Sits	61.6	65.6	+1.4	1.42
European Growth	17.8	19.0	+0.1	1.32
International	92.7	98.7	+1.4	1.00
Japan	140.6	149.7	+0.1	0.01
Pacific	222.5	237.0xd	+1.8	0.20
Secs of America	186.5	198.6xd	+4.5	0.87
W'wide Asset Val	26.8	28.5	+0.2	1.03

Bishopsgate Progressive Mgmt Co
15 St James' Place, London SW1A 1NW 01-493 8111

Progressive Inc.	15.49	16.35	—	1.31
Progressive Acc.	21.75	22.95	—	1.31
International Inc.	16.00	16.89	—	1.70
International Acc.	19.85	20.95	—	1.70
Can & Foreign Inc.	186.2	196.5	+3.0	0.93
Can & Foreign Acc.	207.3	219.0	+3.3	0.93
Special Sits Inc.	161.5	170.9	—	2.40
Special Sits Acc.	161.5	170.9	—	2.40

Brewin Dolphin Unit Tst Mgrs Ltd
5 Giltspur St, London EC1A 9DE 01-248 4400

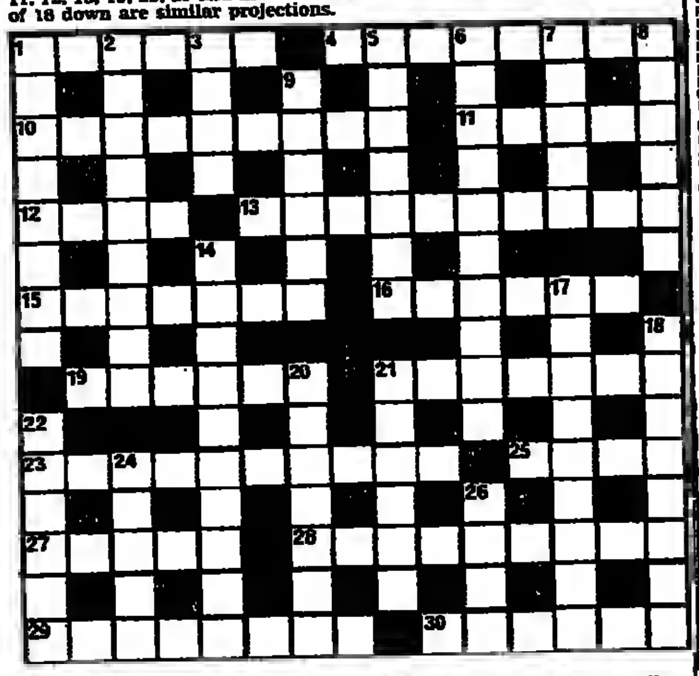
Brewin Capital	192.0	204.1	----	1.53
Brewin Dividend	101.8	108.3	----	5.63
Brewin Int. Gth Inc.	216.9	230.8	----	3.55

JOTTER PAD

FT CROSSWORD No.6,664

SET BY CINEPHILE

11, 12, 13, 19, 25, 29 and most of 23 across, and 3, 26 and the second part of 18 down are similar projections.



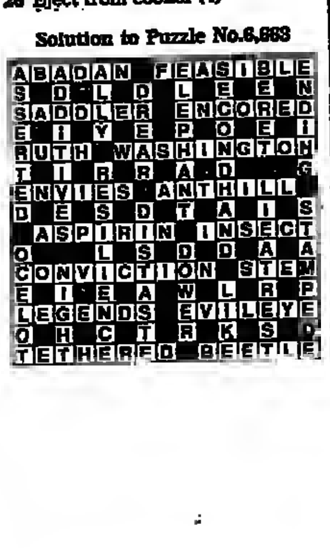
ACROSS

1 Style of gold-backed nut (6)
4 Gamble with a lot of good cards of many colours (8)
10 I must replace article in rubber for wader (9)
11 Mark of purpose (5)
12 Account for book (4)
13 Walk by sea on right? (10)
15 Upper class used to turn obedient (7)
16 Expression of dismay at branch being in river (4,2)
19 Language to eat (6)
21 The sphere and circle for an old instrument (7)
23 War ruins plane, possibly (10)
25 Warm drink on island (4)
27 It's nice to get tribute (5)
28 Maybe nice point I have to start with (9)
29 The main? (8)
30 Needle given by lusty lust (6)

DOWN

1 Awfully rude boss, to be picked off while it's possible? (8)
2 Wedding village leased to painter (9)
3 South African garment (4)
5 Egyptian figure (7)
6 Danish change, changed without Frank? (10)
7 Nosy beast makes money (5)
8 Solver's left after compiler takes alcohol (6)
9 Electrician and radio officer fly in a row (6)
14 French leave, Latin variety, obtained at birth (10)
17 Planet in the ascendant: I get e pound with a pouch (9)
18 Island of squalor (8)
20 Line-out could be wash-out (7)
21 National leader in vestige of ecstasy (6)
22 Language of address (6)
24 US city like a lakeland of old Africa (5)
26 Eject from cooker (4)

Solution to Puzzle No.6,663



FT UNIT TRUST INFORMATION SERVICE

Target Trust Mngrs Ltd
Target Hse, Gatehouse Rd, Aylesbury Bks 0296 394000

American Eagle	64.2	68.4xd	—	1.20
Australia	8.4	8.9	-0.1	0.18
Commodity	83.4	88.8	+2.2	1.01
Convertible	151.3	161.0	+1.1	5.43
Equity	146.8	156.3xd	+1.8	3.14
Euro Spec Sits	79.2	84.3	+0.8	1.29
Financial	31.6	33.6	+0.2	1.87
Global Opps Inc	57.7	61.4	—	1.41
Global Opps Acc	57.7	61.4	—	1.41
Gold Income	56.3	59.9	—	0.85
Gold Acc	103.4	110.0	—	0.85
Income	107.6	114.2xd	+0.2	4.73
Japan	123.9	131.2	+0.2	0.10
Pacific Income	117.2	125.0	+1.4	0.85
Pacific Rr Inv	145.8	155.1	+1.4	0.85
Preference Share	25.7	27.5	-0.1	6.69
Special Sits	101.3	107.9	-0.7	0.58
Technology	42.7	45.4	+0.9	0.30
UK Capital	90.8	96.6	-0.5	1.26
World Income	50.9	54.1	+0.3	5.24
Worldwide Capital	147.3	156.7	+1.7	1.14
Equity Exempt	111.0	118.1xd	—	1.54
Equity Exempt Acc	211.5	225.1	—	1.54

Templeton Investment Mngmt
20 Cornhill Avenue, EC2R 7PA 01-588 6064

Intl Pen & Ch ties	89.7	93.4xd	+0.21	—

Thornton Unit Managers Ltd
33 Cavendish Sq, London W1M 7HF 01-493 7262
Dealing 01-493 8945

American Opps	39.2	41.8	-0.9	1.32
(Accum Units)	40.0	42.7	-0.9	1.32
European Opps	42.0	44.8	+0.3	1.05
Far Eastern Opps	85.0	90.7	+0.8	0.45
(Accum Units)	85.2	90.9	+0.7	0.45
Golden Opps	36.4	38.8	+0.2	1.34
Intl Hi-Yield	44.1	47.0	-0.7	4.20
Japanese Opps	59.3	63.3	-0.1	0.88
(Accum Units)	59.3	63.3	-0.1	0.88
Kangaroo	33.1	35.3xd	—	1.27
Oriental Income	29.1	31.0	+0.1	1.99
(Accum Units)	29.6	31.6	+0.4	1.99
Pacific Technology	53.7	57.3	+0.8	0.00
(Accum Units)	53.7	57.5	+0.0	0.00
Tiger	83.8	89.4	+1.2	0.48
(Accum Units)	84.5	90.1	+1.2	0.48
UK Hi-Yield	41.8	44.6xd	+0.3	8.39
(Accum Units)	45.2	48.2xd	-0.2	8.39
NH Opps	46.1	49.2	+0.2	1.94
(Accum Units)	47.8	51.1	-0.2	1.94

Touche, Remnant Unit Tst Mngt Ltd
Mermaid Hse, 2 Puddle Dock, EC4 01-248 1250

TR American Gwth	37.1	39.3	—	1.61

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J. Rothschild Fund Managers Ltd – Contd.

INSURANCES

AA Friendly Society
Investment Mngt M & G Inv Mngt Ltd

AA Friendly Sy Jan 10	—	139.41	...

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	239.6	247.4	—	—
Equity Ser. 1	117.2	123.4	+1.2	—
Prop Acc. Ser 2	340.4	358.4	—	—
Equity Ser 2	133.1	140.2	+1.5	—
Selective Acc	283.6	298.0	+1.4	—
Prop. Ser. 4	268.3	282.5	—	—
Equity Ser. 4	134.9	142.8	+1.1	—
Fixed Int. Ser. 4	211.7	222.9	-0.3	—
Indexed Inv. Ser. 4	121.0	127.4	-0.1	—
American Ser 4	260.0	273.7	+0.4	—
High Inc. Ser. 4	378.2	398.2	+2.2	—
Japan Ser 4	277.4	292.1	+0.6	—
Man. Ser. 4	374.4	394.2	+2.5	—
Money Ser 4	215.8	227.2	—	—
European Ser 4	91.4	96.3	+0.4	—
Pension Funds				
Property	451.8	475.6	—	—
Equity	962.3	1013.0	-12.2	—
Selective	302.5	318.5	-1.7	—
Managed	683.2	719.2	-6.8	—
Security	395.1	415.9	—	—
Fixed Int	236.0	248.5	-0.3	—
European	123.9	130.5	-0.9	—
American	213.3	224.6	+4.4	—
Japan	297.0	312.7	+1.0	—
Indexed	128.2	135.0	+0.3	—
International	142.9	150.5	+0.3	—
Ethical	101.3	106.7	+1.8	—
High Income	101.1	106.5	-0.7	—

Abtrust Management Ltd
20, Chiswell St, London, EC1Y 4TY 01-374 6801

Managed Growth	297.82	313.50	...	—
Managed Income	132.79	139.78	...	—

AEtna Life Insurance Co Ltd
401 St John St, London EC1V 4QE 01-833 2303

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OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	269.1	283.3	.....	–
Man Pens Inc & Cap Fd	344.6	362.8	.....	–
Money Fund	112.9	118.9	.....	–
Pens. Mngd Fd (Init)	89.1	93.8	.....	–
Pens Mngd Fd (Acc)	102.0	107.4	.....	–
Pens FT30 Fd (Init)	129.5	136.4	.....	–
Pens FT30 Fd (Acc)	148.2	156.0	.....	–
Pens O'seas MgFd(Init)	58.8	61.9	.....	–
Pens O'seas MgFd(Acc)	67.3	70.9	.....	–
Pens Fxd Int. Fd (Init)	107.3	113.0	.....	–
Pens Fxd Int. Fd (Acc)	122.8	129.3	.....	–
Pens Deposit Fd (Init)	101.4	106.0	.....	–
Pens Deposit Fd (Acc)	116.1	122.3	.....	–

Premium Life Assurance Co Ltd
37–39, Perrymount Road, Haywards Heath 0444 458721

American	97.0	103.0	+0.1	–
Building Soc. Fd	161.0	170.0	.....	–
Balanced	244.0	257.0	+0.1	–
Deposit	160.0	169.0	.....	–
European	125.0	132.0	+0.1	–
GT Managed	152.0	160.0	.....	–
Gartmore Mngd	102.8	108.8	+0.1	–
German	90.0	95.0	.....	–
Gilt	171.0	180.8	+0.1	–
High Inc	114.0	120.0	.....	–
International Equity	155.0	164.8	+0.1	–
Japan	200.0	232.0	+0.1	–
Managed	55.0	58.0	.....	–
Property	206.8	270.0	.....	–

Prudential Holborn Life Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed Fd	444.2	467.6	+3.0	–
Equity Fd	900.6	948.0	+8.7	–
Intnl. Fd	313.0	329.5	+2.6	–
Fixed Int. Fd	366.6	385.9	.....	–
Prop. Fd	325.6	342.8	.....	–
Cash Fd	237.5	250.0	.....	–
Pacific Basin Fd	177.9	187.3	+0.4	–
North American Fd	127.9	134.7	+1.7	–
European Fd	127.9	134.7	+0.8	–
Holborn Balanced Grth Fd	102.6	108.0	+0.5	–
Holborn Strategic Grth Fd	101.2	106.6	+0.5	–

Prudential Holborn Pensions Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed	483.1	508.6	+3.0	–
Equity	699.0	735.8	+6.8	–
Global Equity	200.3	210.9	+1.5	–
Fixed Interest	377.8	397.1	–0.3	–
Property	319.5	336.4	+0.1	–
Cash	141.0	148.5	.....	–
Index Linked Gilt	167.5	176.4	–0.1	–
Guaranteed	8.31		.....	–
International Money	185.3	195.1	.....	–
North American Fd	56.8	59.8	+1.2	–
Japanese Fund	123.5	130.0	+0.5	–
European Fund	69.1	72.8	+0.9	–
Special Situations Fd	90.9	104.2	+1.1	–
Communications Fund	85.5	90.0	+0.7	–
Smaller Cos Fund	99.3	104.8	+0.3	–

Prudential Pensions Limited

Royal Heritage Life Assurance Ltd—Contd.

Skandia Life Assurance Co Ltd—Contd.

Swiss Life Pensions Ltd

Johnson Fry Plc

EBC Trust Company (Jersey) Ltd

Gutter International Management Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

OFFSHORE INSURANCES

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

1988 High	1988 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
100¼	99[illegible]	Treas. 9½pc '88	100¼	......	9.49	9.03
102[illegible]	101[illegible]	Treas 11½pc 1989	101[illegible]	......	11.34	9.18
101[illegible]	99¾	Treas 9½pc Cnv 1989	100[illegible]	[illegible]	9.49	9.31
97[illegible]	95[illegible]	Treas 3pc 1989	97	[illegible]	5.09	6.44
102[illegible]	100[illegible]	Treas 10½pc 1989	101[illegible]	[illegible]	10.38	9.19
102	100[illegible]	Exch 10pc 1989	100[illegible]	[illegible]	9.94	9.41
103[illegible]	101[illegible]	Exch 11pc 1989	101[illegible]	[illegible]	10.81	9.41
97[illegible]	95[illegible]	Treas 5pc 1986–89	96[illegible]	[illegible]	5.19	7.88
104[illegible]	101[illegible]	Exch 10¼pc Cv '89	101[illegible]	[illegible]	10.09	8.99
107½	105	Treas 13pc 1990‡‡	105[illegible]	[illegible]	12.39	9.48
104¾	102[illegible]	Exch 11pc 1990‡‡	102[illegible]	[illegible]	10.77	9.51
107[illegible]	104[illegible]	Exch. 12½pc 1990	104[illegible]	[illegible]	11.95	9.53
93[illegible]	91[illegible]	Treas. 3pc 1990	92[illegible]	......	3.25	7.40
99[illegible]	98[illegible]	Treas 8¼pc 1987–90‡‡	98[illegible]	[illegible]	8.39	9.20
102½	98[illegible]	Treas. 8pc Cv 1990 ‡‡	99[illegible]	[illegible]	8.09	8.59
103[illegible]	100[illegible]	Treas. 10pc Cv 1990	101	[illegible]	9.90	9.48
91[illegible]	88[illegible]	Exch 2½pc 1990	89½	[illegible]	2.79	7.29
107[illegible]	105	Treas 11¾pc 1991	105[illegible]	[illegible]	11.19	9.50
95[illegible]	92[illegible]	Funding 5¾pc '87–91‡‡	93[illegible]	[illegible]	6.17	8.52
90[illegible]	87[illegible]	Treas. 3pc 1991	88[illegible]	[illegible]	5.39	7.48
105[illegible]	101[illegible]	Treas 10pc Cv '91 ‡‡	102[illegible]	[illegible]	9.80	9.22
107[illegible]	104[illegible]	Exch. 11pc 1991	104[illegible]	[illegible]	10.55	9.46
98[illegible]	95[illegible]	Treas. 8pc 1991	96[illegible]	[illegible]	8.33	9.35
113[illegible]	109[illegible]	Treas 12¾pc 1992‡‡	109[illegible]	[illegible]	11.62	9.48
104[illegible]	101[illegible]	Treas 10pc 1992	101[illegible]	[illegible]	9.85	9.49
98[illegible]	94[illegible]	Treas 8pc 1992 ‡‡	95[illegible]	[illegible]	8.36	9.36
106[illegible]	102[illegible]	Treas 10½pc Cv 1992‡‡	103[illegible]	[illegible]	10.18	9.48
86[illegible]	83[illegible]	Treas. 3pc 1992	84[illegible]	[illegible]	3.52	7.39
112[illegible]	108[illegible]	Exch. 12¼pc '92	109[illegible]	[illegible]	11.24	9.57
117[illegible]	113[illegible]	Exch 13½pc 1992	113[illegible]	[illegible]	11.88	9.49
40[illegible]	38[illegible]	Treas. 8¼pc 1993 (40)	38[illegible]	[illegible]	8.62	9.40
105[illegible]	100[illegible]	Treas 10pc 1993‡‡	101[illegible]	[illegible]	9.78	9.48

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Over Fifteen Years

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Undated

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INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

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TEXTILES—Contd

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Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

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Tins

Miscellaneous

THIRD MARKET

Stock	Price	+ or -	Div Net	Cvr	Yld Gr's	P/E
Moray Firth 1p	11½	+2				
Norton Group 5p	16	-1				
Ovoca Gold IB 2p	45					
Pennant Grp. 2p	27	-1	d0.2		1.0	
Propeller 1p	55					4
Publishing Hlds 5p	18					10.8
Royal Sovereign Grp 10p	205		4.6	1.9	3.0	19.2
Scott Pickford 10p	24½	-½	3.1	0.7	16.9	12.7
Seaton Hldgs	76					
Stats Hldgs. 5p	19					48.6
Swanyard Studios 1p	3¼					18.5
Takare	237	+2	b1.0	8.1	0.6	24.3
Theme Holdings	46	+1	ϕ1.1		2.2	
Tomorrows Leisure 20p	26					10.4
Tullow Oil 10p	17					
UPL Group 10p	118		L2.41		2.7	
Unit Group	143		5.0		4.8	
Video Tape Record 5p	97	+5	L2.3	2.3	3.2	14.0

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- "Tap Stock"
- Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Dealt in under Rule 535(3).
- Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- Merger bid or reorganisation in progress
- Not comparable
- Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- No par value

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or -
Albany Inv 20p γ	70	
Craig & Rose £1 γ	700xd	+12
Finlay Pkg. 5p γ	81	+1
Holt (Jos) 25p γ	£11¼	

IRISH

Stock	Price	+ or -
Nat. 9¾% 84/89	£100⅝	
9pc Cap Ln 1996	£98¾	
Fin. 13% 97/02	£119	
Arnotts γ	400	
CPI Hldgs γ	116	
Carrol Inds γ	158xd	+2
Hall (R. & H.)	165	
Heiton Hldgs γ	52	-2
Irish Ropes γ	165	
Unidare γ	410	

TRADITIONAL OPTIONS

3-month call rates

Industrials

Stock	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord	21
Cadburys	32
Charter Cons	30
Comm Union	34
Courtaulds	34
FKI Babcock	11
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	50
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	38
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	34
Polly Peck	30
Racal Elect	32
RHM	30
Rank Org Ord	44
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property

Stock	p
Brit Land	30
Land Securities	52
MEPC	52
Peachey	50

Oils

Stock	p
Brit. Gas	13
Brit Petroleum	24
Burmah Oil	50
Charterhall	3
LASMO	48
Premier	7½
Shell	95
Ultramar	26

Mines

Stock	p
Cons Gold	95
Lonrho	20
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

LONDON STOCK EXCHANGE

Account Dealing Dates

Option *First Dealings	Declarations	Last Dealings	Account Day
Jun 6	Jun 16	Jun 17	Jun 27
Jun 20	June 30	Jul 1	Jul 11
Jul 4	Jul 14	Jul 15	Jul 25

*New time dealings may take place from 9.00 am two business days earlier.

Rowntree strong but dull bond sector discourages equities towards the close

A SLUGGISH bond market, together with a slower opening on Wall Street, took the steam out of an initial advance in UK equities yesterday, and gains were eliminated towards the end of the session.

The opening advance in equities, which took the market up by nearly 13 points on the FT-SE scale, was highlighted by excitement in Rowntree shares, which rose sharply to match the increased bid of 1075p a share from Nestlé, valuing the equity at £2.55bn.

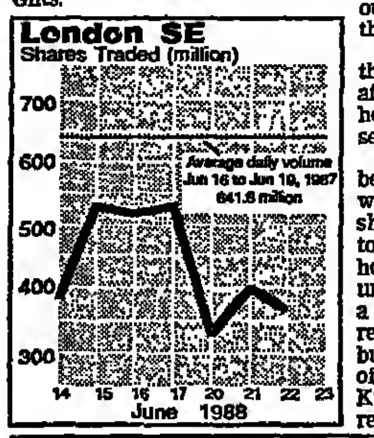
The blue chip exporting stocks made a strong start behind Wall Street's 43 point gain overnight, and the further gain in the US dollar. Turnover was brisk, and the sector seemed to be in good heart.

However, the advance began to run out of support fairly quickly, and leading indices reached the day's peaks before 9.30am. With Government bonds also unable to sustain early gains, equities settled to two-way trading, which included some profit-taking selling.

The picture was somewhat patchy throughout, with Glaxo and British Petroleum providing dull exceptions among the blue chip stocks. When Wall Street came in lower, London backed away to end on a dull note.

The FT-SE 100 closed with a net fall of 0.4 at 1878.9. However, traders showed little concern at the market's about turn. The FT-SE Index had gained some 35 points over the two previous sessions to reach a new post-Crash high, and was considered due for a pause, if not a correction.

However, there was some disappointment in the bond market, which lost early gains of ¼ to close with losses of ⅝ at the long end, ½ in mediums and ⅜ in the shorts. Index-linked bonds shed ⅛, following the conventional Gilts.



The weakness in bonds, doubly disappointing in that it contrasted with firmness in the New York credit markets, reflected the fall in the pound, but more particularly the market's cautious view on domestic interest rates. Weakness in sterling is seen as an opportunity for the UK authorities to raise domestic interest rates yet again, and several City analysts are predicting bank base rates of 10 per cent before Christmas.

Some selling of medium-dated Gilts appeared to come from overseas holders, perhaps showing nervousness ahead of the UK trade figures for May, due on Monday.

Rowntree encountered sustained early activity as Nestlé followed up its increased offer, launching a buying attack which netted some 7 per cent of the British confectionery group's shares. The purchases eventually lifted the overall Nestlé stake to around 22.8 per cent on a fully diluted basis.

Some 26m Rowntree shares were traded by 11 am but business thereafter subsided on the view that rival bidder Suchard was unlikely to stage a counter offer and was more likely to use the profit on its sizeable Rowntree holding to fund a deal with Cadbury Schweppes. The Rowntree share price made little further progress from midday onwards and settled ¾ up on the day at £10¼, after turnover of 29m.

Cadbury Schweppes, reported recently to have had talks with Suchard because of a threatened move by large shareholder General Cinema of the US, also traded heavily. A rising market since the reports first appeared, Cadbury shares surged to 431p yesterday before peaking out to close a net 9 higher at 422p. Volume totalled 10m shares.

GEC's turnover leapt dramatically late in the session with three deals totalling 26m shares – two of 9m and one of 8m – carried out at 149½p, compared with the then ruling price of around 155p.

But traders were quick to say that the timing of the trades, just after 5 pm, indicated the likelihood that the three deals represented "bed and breakfast" deals.

BP "old" shares slipped to 259p before closing a net 3 off at 260p with turnover totalling 4.8m shares. The partly-paid fell 1¼ to 64¼p as 3.9m changed hands; both classes of shares came under further selling pressure as a result of Kleinwort Grieveson's reduction of its dividend forecast but, more importantly, of worries of possible pressure on the Kuwait Investment Office to reduce its stake in BP.

FINANCIAL TIMES STOCK INDICES

	June 23	June 22	June 21	June 20	June 17	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	88.82	89.15	89.10	89.06	89.35	90.91	91.43 (18/4)	86.97 (13/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	98.02	97.99	98.13	98.11	98.38	97.59	98.67 (25/5)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1496.7	1498.5	1481.6	1468.7	1472.6	1772.5	1496.7 (23/6)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	214.1	215.7	215.9	218.7	215.5	375.9	312.3 (7/1)	195.4 (13/5)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.44	4.45	4.50	4.53	4.52	3.22				
Earnings Yld. % (full)	11.38	11.14	11.35	11.43	11.58	7.76				
P/E Ratio (net)	10.71	10.69	10.56	10.48	10.53	15.85				
SEAQ Bargains (5pm)	28,183	24,746	21,760	21,247	30,657	42,659				
Equity Turnover (£m)	-	1075.98	955.98	720.80	1137.64	1578.5				
Equity Bargains	-	27,142	24,865	24,942	30,657	49,864				
Shares Traded (ml)	-	443.1	395.3	327.3	531.1	670.2				

S.E. ACTIVITY

Indices	June 22	June 21
Gilt Edged Bargains	108.9	103.5
Equity Bargains	173.9	161.1
Equity Value	2174.8	1932.3
5-Day average		
Gilt Edged Bargains	109.3	112.4
Equity Bargains	182.2	187.3
Equity Value	2052.7	*2260.3

♥ Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1506.6	1505.0	1506.2	1502.6	1502.9	1503.6	1502.3	1499.8

Day's High 1508.5 Day's low 1496.2

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974. * Nil=10 61.
* Corrected figure.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 0898 123001

Any move to trim the KIO stake to the 15 per cent rumoured in the marketplace, could leave BP old shares with a downside potential to around 240p, with a penny for penny fall in the partly-paid stock, according to some marketmakers.

British Gas ran into a sustained bout of profit-taking which lowered the shares 4 to 188p after turnover of 16m. But Enterprise remained a strong market and raced up 9 to 479p, after 481p, with dealers still predicting imminent news either on the exploration front or from a possible bidder.

International stocks were mixed, with early gains proving hard to sustain as the market approached the 1900 level. Wall Street's gloomy opening also subdued sentiment. Glaxo ran into heavy selling in the ADR market as investors further reduced its US rating. The stock rallied before falling again in later trading to its close at 981p, a loss of 5 on the day. ICI fared better, ending with a rise of 14 to 1084p in improved turnover of 3.4m shares.

Fisons firmed 2 to 277p as 4.8m shares changed hands. Rumours reappeared suggesting Fisons as a potential takeover candidate, but the only name to emerge as a possible predator was that of Hoffman-La Roche, the Swiss pharmaceutical company, and dealers sounded unconvinced.

Reckitt & Coleman enjoyed a boost on the back of Rowntree, rising 8 to 928p on brand-name speculation. Hanson was dominated by US buying, with Hoare Govett seeing a good portion of the 13m shares traded. The price crept up ½ to 142½p.

Composites were the scene of considerable activity. Commercial Union dropped 8¼ to 399p in the wake of a persistent seller, but a number of institutional buying orders boosted General Accident 11 to 908p and GRE 5 to 971p.

In brokers CE Heath leapt 21 to 446p, after 448p, amid talk of a stock shortage. Hogg Robinson surged up to 184p before settling a net 6 higher at 179p with the market still suggesting a bid of 350p a share could be on the way from the US. Sedgwick were unchanged at 238p. County NatWest Woodmac upped their 1988 profits forecast from £55 to £63m but reckon the group will cut their dividend.

Three new issues reached the market, of which the Jackson Group, the engineering and construction concern, fared the best closing up 8 at 118p. However, dealers complained of a severe shortage of Jackson stock and trading volume was very thin. There was slightly more business in Eurocopy, the specialist suppliers of photocopying and facsimile equipment, who opened the day on 96p, firmed early on to 108p, but eased off in the afternoon to close 7 better on 102p. Finally, John Tams, the pottery group, were received favourably and having started the day on 90p closed 3 up on 93p.

Inter-dealer activity dominated the brewery sector as marketmakers jostled for positions in stocks where a bid is expected. Allied Lyons surprised its fans by failing to respond to news of Nestlé's agreed bid for Rowntree - the shares never climbed above their opening level and ended 3 down at 438p. Turnover was 3.2m, which was rumoured to include one early trade of 1m shares at 441p.

Scottish & Newcastle saw two-way trade, touching 349p at one stage before a line of stock pushed prices down to the close of 338p, a fall of 8 on the day. Grand Metropolitan found little fizz after its £400m sale to Pepsico, ending only 1 better at 513p. Guinness added 2 to 339p in volume of 6.9m. A late bargain of 5m shares at 340p went through very late.

Cement producers made good progress early in the session amid stories that cement prices are about to be lifted by 4 per cent or more. The move, apparently being led by Rugby, boosted the latter 5 to 145½p.

BPB eased a penny to 299p on turnover of less than 1m ahead of the preliminary figures which are scheduled for June 30.

Harris Queensway firmed 5 to 161p on the news that chairman Sir Philip Harris will attempt to foil Argyll's takeover plans by trying to raise the funds for a £400m management buy-out. Dixons closed down 5 on 183p after Wednesday night's news that Eddie Dayan was leaving Dixons to join the Argyll-led consortium planning the Harris bid.

There were numerous big turnover stocks in electronics, with some 8.8m Ferranti traded after the previous session's 16m; dealers reported extremely heavy two-way business in the shares on the inter-dealer broker screens, as well as buying prompted by takeover speculation. There was also big interest said by dealers to have been generated by the recent "buy" recommendation issued by BZW's Simon Street. Ferranti shares settled 2 off at 86p.

British Telecom jumped 4 to 252p on turnover of 8.2m; talk in the market suggested the forthcoming OFTEL review of the regulatory framework could be announced soon.

Cable & Wireless initially moved up to 385p in the wake of strong buying via the IDB screens but late selling lowered the shares to 375p – down 4 on the day after turnover of 6.4m shares. Racal, where Cable & Wireless now has a 2.8 per cent stake, eased 3 to 337p on turnover of 2.3m.

A busy trade in Rolls Royce was said to reflect investors' appreciation of a number of positive factors, including the group's good order book, a low p/e ratio and attractive dividend yield. The last-named encouraged support from gross income funds which helped swell turnover to 5.8m shares and raise the price to 128p.

Vosper Thornycroft prospered to close 10 up at 191p on hopes that it will awarded, on participate in, the Government contract for 4 Type 23 naval frigates, the details of which are expected within the next few weeks. Still reflecting mid-term profits, Arthur Lee rose 6 more to 128p.

Avis Europe lost 9 to 358p as a rumour circulated that a leading broker had downgraded its profits forecast. Macarthy was subdued after its figures and dropped 17 to 211p.

Charter Consolidated rose 10 to 362p as investors warmed to Wednesday's figures. Metal-basher Downiebrae put on 5 to 49p amid rumours that a bid might follow the recent disposal of a block of 1.2m shares.

The motors sector featured ERF Holdings which rose 20 to 408p in delayed response to good figures. Lucas moved up 17 to 560p at one stage, before closing at 555p. Dealers said its recent good run was influenced by its entry into the FT-SE 100 index.

Advertising Agency Lopex replied strongly to speculation that its European operations, particularly the Alliance Network, could appeal to a Continental predator. A trade magazine suggestion of an impending US acquisition added flavour and the shares ended 17 higher at 208p.

Greycoat featured in the property sector after it announced a jump in its assets per share of 34 per cent to 404p. However, the market had already discounted the improvement and it closed 5 down at 430p. As one dealer put it, "everyone loves Greycoat, but assets-per-share of just over £4 was not enough."

Among the leaders MEPC hardened 7 to 557p against a strong dollar and rumours that it was close to clinching a deal to let its Alban Gate property. MEPC were also boosted by strong buy recommendations from BZW and Quilter Goodison. In contrast, Land Securities fell back 6 to 586p, while Marler Estates also eased following the morning announcement that they would develop Stamford Bridge, the home of Chelsea Football Club, valuing the development at £60m. A late mover was UK Land, rising 38 to 738p on rumours that it had sold its 6/7 per cent holding in Estates Property Investment Company.

Rothmans International revealed annual profits in the middle of the market range but the shares dipped to 432½p before rallying to close little changed on balance at 446p.

In Overseas Traders Harrisons & Crosfield again featured after Kleinwort Grieveson analyst Richard Allan upgraded his profits forecast to £108m and County NatWest WoodMac gave the thumbs up to the acquisition of timber concern Southerns-Evans. Further supported by a strong dollar and strengthening commodities prices, Harrisons closed up 13 to 664p.

Early optimism gave way to a quiet afternoon in Traded Options and an end-of-day volume of 37,800 (34,516 calls and 13,284 puts). The most popular series were the August 1850 and 1950 calls. British Gas topped the trading table with 3,484 puts, but only 785 calls. In second place were Cadburys with 2,718 calls and 1,304 bids on the back of the morning's news in Rowntree. Hanson followed with 2,011 calls and a round 1,000 puts, backed up by BT with 1,819 calls and 1,103 puts.

Traditional Options

- First dealings June 13
- Last dealings June 24
- Last declarations Sept 15
- For Settlement Sept 24

For rate indications see end of London Share Service

Dealers reported calls in T.Cowie, Ovoca Gold, Chartsearch, Pericom, Wilshaw, Polypipe, Acorn Secs., Pleasurama and Epicure. Puts were recorded in Harris Queensway, Tuskar Resources, Yellowhammer and Virgin while a double was completed in Wilshaw.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA Group	1,700	General Accident	1,100	Prudential	3,500
Allied-Lyons	3,100	General Elect.	27,000	Racal	2,300
Amstrad	357	Glaxo	1,500	Rank Org.	355
Argyll Group	978	Globe Investment	585	RMC	150
Assoc. Brit. Foods	241	Granada	109	RHM	3,300
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (217).

AMERICANS (26) CANADIANS (10) BANKS (2) BREWERS (7) BUILDINGS (10) CHEMICALS (4) STORES (8) ELECTRICALS (10) ENGINEERING (8) FOODS (8) INDUSTRIALS (27) INSURANCE (3) LEISURE (4) MOTORS (3) NEWSPAPERS (4) PAPERS (4) PROPERTY (12) TRUSTS (53) OILS (5) OVERSEAS TRADERS (1) PLANTATIONS (3) MINES (5) THIRD MARKET (2).

NEW LOWS (24).

BRITISH FUNDS (11) Exch. 11pc 1988, Exch. [illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	0	103	10
Corporations, Dominion and Foreign Bonds	[illegible]	[illegible]	[illegible]
Industrials	529	282	754
Financial and Properties	238	84	326
Oils	32	22	56
Plantations	0	0	10
Mines	41	65	65
Others	142	29	102
Totals	983	602	1,380

FT - ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

Columns: Thursday June 23 1988 — Index No. | Day's Change % | Est. Earnings Yield% (Max.) | Gross Div. Yield% (Act at 25%) | Est. P/E Ratio (Net) | xd adj. 1988 to date; Wed Jun 22 Index No.; Tue Jun 21 Index No.; Mon Jun 20 Index No.; Year ago (approx) Index No.

	Group	Index No.	Day's Change %	Est. Earnings Yield%	Gross Div. Yield%	Est. P/E Ratio	xd adj. 1988 to date	Wed Jun 22	Tue Jun 21	Mon Jun 20	Year ago
1	CAPITAL GOODS (208)	793.59	[illegible]	9.89	3.98	12.58	12.32	793.26	784.38	778.55	952.34
2	Building Materials (29)	[illegible]									
3	Contracting, Construction (35)	[illegible]									
4	Electricals (12)	[illegible]									
5	Electronics (31)	[illegible]									
6	Mechanical Engineering (56)	[illegible]									
8	Metals and Metal Forming (8)	[illegible]									
9	Motors (13)	[illegible]									
10	Other Industrial Materials (24)	[illegible]									
21	CONSUMER GROUP (187)	[illegible]									
22	Brewers and Distillers (21)	[illegible]									
25	Food Manufacturing (23)	[illegible]									
26	Food Retailing (16)	[illegible]									
27	Health and Household (12)	[illegible]									
29	Leisure (30)	[illegible]									
31	Packaging & Paper (17)	[illegible]									
32	Publishing & Printing (17)	[illegible]									
34	Stores (34)	[illegible]									
35	Textiles (17)	[illegible]									
40	OTHER GROUPS (92)	[illegible]									
41	Agencies (19)	[illegible]									
42	Chemicals (20)	[illegible]									
43	Conglomerates (13)	[illegible]									
45	Shipping and Transport (12)	[illegible]									
47	Telephone Networks (2)	[illegible]									
48	Miscellaneous (26)	[illegible]									
49	INDUSTRIAL GROUP (487)	985.59									
51	Oil & Gas (13)	1863.67									
59	500 SHARE INDEX (500)	1059.94									
61	FINANCIAL GROUP (122)	716.50									
62	Banks (8)	[illegible]									
65	Insurance (Life) (8)	[illegible]									
66	Insurance (Composite) (7)	[illegible]									
67	Insurance (Brokers) (7)	[illegible]									
68	Merchant Banks (11)	[illegible]									
69	Property (51)	[illegible]									
70	Other Financial (30)	[illegible]									
71	Investment Trusts (78)	[illegible]									
81	Mining Finance (2)	[illegible]									
91	Overseas Traders (8)	[illegible]									
99	ALL-SHARE INDEX (710)	970.75									
	FT-SE 100 SHARE INDEX ♦	1878.9	-0.4								2277.2

FIXED INTEREST

	PRICE INDICES	Thu Jun 23	Day's change %	Wed Jun 22	xd adj. today	xd adj. 1988 to date
	British Government					
1	5 years	122.06	-0.18	122.28	-	5.51
2	5-15 years	138.01	-0.47	138.67	-	7.09
3	Over 15 years	147.71	-0.53	148.50	-	6.88
4	Irredeemables	165.34	+0.02	165.30	-	6.31
5	All stocks	135.35	-0.39	135.88	-	6.55
	Index-Linked					
6	5 years	127.39	-0.20	127.60	-	2.12
7	Over 5 years	120.82	-0.58	121.20	-	1.72
8	All stocks	121.18	-0.36	121.62	-	1.73
9	Debentures & Loans	118.69	-	118.69	-	5.94
10	Preference	93.92	-0.03	93.96	-	3.31

	AVERAGE GROSS REDEMPTION YIELDS		Thu Jun 23	Wed Jun 22	Year ago (approx.)
	British Government				
1	Low Coupons	5 years	9.10	9.02	8.02
2		15 years	9.35	9.27	8.93
3		25 years	9.14	9.09	8.95
4	Medium Coupons	5 years	[illegible]	[illegible]	[illegible]
5		15 years	[illegible]	[illegible]	[illegible]
6		25 years	[illegible]	[illegible]	[illegible]
7	High Coupons	5 years	[illegible]	[illegible]	[illegible]
8		15 years	[illegible]	[illegible]	[illegible]
9		25 years	[illegible]	[illegible]	[illegible]
10	Irredeemables		[illegible]	[illegible]	[illegible]
11	Index-Linked Inflation rate 5%	5yrs.	[illegible]	[illegible]	[illegible]
12	Inflation rate 5%	Over 5 yrs.	[illegible]	[illegible]	[illegible]
13	Inflation rate 10%	5 yrs.	[illegible]	[illegible]	[illegible]
14	Inflation rate 10%	Over 5 yrs.	[illegible]	[illegible]	[illegible]
15	Debs & Loans	5 years	10.31	10.31	9.86
16		15 years	10.71	10.71	10.09
17		25 years	10.74	10.74	10.19
18	Preference		9.54	9.54	10.16

♦Opening index 1890.2; 10 am 1888.1; 11 am 1890.2; Noon 1887.2; 1 pm 1888.5; 2 pm 1888.6; 3 pm 1886.5; 3.30 pm 1886.4; 4 pm 1883.8

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

LONDON TRADED OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allied Lyons (*439)	390	53	63	70	2	5	11
	420	27	40	50	6	13	22
	460	6	20	30	28	35	40
Brit. Airways	140	13	20	22	2	6	[illegible]
	160	3	11	13	13	16	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

June 23 Total Contracts 37,800 Calls 24,516 Puts 13,284
FT-SE Index Calls 2596 Puts 1647
*Underlying security price.

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

"RIGHTS" OFFERS

[illegible]

WORLD STOCK MARKETS

CANADA

TORONTO
2pm Prices June 23

OVER-THE-COUNTER

Nasdaq national market, Closing prices June 23

Continued from page 39

CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES

Barrett (H.)	163	+	12
Brit. Telecom.	252	+	4
Brookmount	500	+	16
Cadbury Schweppes	422	+	9
Charter Cons.	362	+	16
Coats Viyella	248	+	11
Colorvision	370	+	20
E.R.F.	409	+	20
Enterprise Oil	479	+	9
Grainger Trust	468	+	6
Harrisons & Cros.	654	+	13
Harris Queensway	161	+	6
Heath (C.E.)	446	+	21
Hogg Rob & GM	179	+	6
Lopex	208	+	17
Lucas Inds.	555	+	12
Pavilion Leisure	263	+	50
Rowntree	£16⅛	+	⅛
Rugby Group	143	+	5
Tarmac	250	+	6

FALLS

Treas. 12½% '03-05	£123⅛	−	13/32
Treas. 2½% IL 2003	K117	−	7/32
Comm. Union	399	−	6½
Glaxo	981	−	5
Greycoat	430	−	5
Macarthy	211	−	17
Marine Dev.	347	−	11
Morgan Grenfell	317	−	12

TOKYO - Most Active Stocks
Thursday, 23 June, 1988

	Stocks Traded	Closing Prices	Change on day
Kawasaki Steel	73.29m	574	+11
NKK	67.23m	534	+3
Nippon Steel	49.51m	556	+10
Sumitomo Metal	37.20m	514	+21
Kobe Steel	35.04m	490	+9
Japan Steel Works	32.43m	677	+45
Mitsubishi Heavy Ind	27.73m	824	+9
Toshiba	21.62m	911	+2
Nisshin Steel	20.64m	937	+22
Kurita Water	17.73m	1,310	+90

INDICES

NEW YORK — DOW JONES

	Jun 22	Jun 21	Jun 20	Jun 17	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2152.2	2109.17	2083.93	2104.02	2152.2 (22/6)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.59	88.56	88.33	88.45	91.25 (3/3)	86.12 (4/1)	—	—
Transport	882.77	868.13	856.93	864.10	904.12 (25/3)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	183.68	182.14	180.00	180.60	190.02 (29/2)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2169.10 (2115.75) Low 2131.05 (2072.59)

STANDARD AND POOR'S	Jun 22	Jun 21	Jun 20	Jun 17	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	275.66	271.67	268.94	270.68	275.66 (22/6)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	318.54	313.91	310.80	312.80	318.54 (22/6)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	24.88	24.51	24.26	24.49	24.88 (22/6)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	155.35	153.29	151.96	152.84	155.35 (22/6)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	308.59	306.88	305.12	305.30	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	390.53	387.75	386.00	386.92	390.53 (22/6)	331.97 (12/1)	455.26 (26/8/87)	54.87 (31/10/72)

	Jun 17	Jun 10	Jun 3	year ago (approx.)
Dow Industrial div. Yield	3.56	3.54	3.58	2.83

	Jun 15	Jun 8	Jun 1	year ago (approx.)
S & P Industrial div. yield	3.06	3.08	3.64	2.52
S & P P/E ratio	14.37	14.21	14.33	23.17

TRADING ACTIVITY

NEW YORK	Jun 22	Jun 21	Jun 20
Issues Traded	1,962	1,938	1,941
Rises	1,144	917	587

CANADA

NEW YORK ACTIVE STOCKS

‡ Subject to official recalculation

Closing Prices June 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
28	14	AAR s	.36	1.4	21	180	25¾	25⅝	25¾	+ ⅛
12⅛	8⅞	ACMIn	a1.16e	10.		842	11⅞	11⅝	11⅞	− ⅛
12¼	10¾	ACMSc	a1.26	11.		1160	11⅜	11¼	11⅜	
10⅛	9¼	ACMSp n				398	9⅞	9¾	9¾	
21⅝	18⅛	AGS			21	947	27	29⅝	27	+ ⅞
7⅞	2⅝	AMCA				59	4⅛	4⅛	4⅛	
8⅝	3¼	AM Ind				10000	4⅛	2⅞	4	
29⅞	17	AM Int pf	2	11.		138	18⅞	18½	18⅞	− ⅛
65½	28⅛	AMR			12	2784	49	47⅝	48	+ ⅝
11⅛	3⅛	ARX			11	284	8½	8	8½	+ ⅛
72⅞	40⅛	ASA	3	6.8		510	44	46½	46¾	− ⅛
60¾	9⅞	AVX			14	1050	18⅞	17¾	18⅞	+ 1
66⅞	40	AbtLab	1.20	2.7	10	3136	45¼	44¾	45	− ⅛
28	15⅛	AbitiPr g	1			13	19	18⅛	19	+ ⅛
18¾	8½	AcmeC	.40	3.5		24	11½	11⅜	11½	
10½	6⅝	AcmeE	.32b	4.6	28	8	7⅛	7	7	
20	14⅛	AdaEx	2.05e	19.		65	18¾	18	18⅛	
19¾	3⅞	AdamMl	.24	1.8	13	23	15½	15½	15½	− ½
24⅞	7½	AMD				6058	16¾	16¼	16⅛	+ ⅛
58¼	29¼	AMD pf	3	7.1		7	42¼	42	42	
11⅞	4⅛	Adobe			12	98	8	7⅛	7⅛	
20¼	16¾	Adob pf	1.84	10.		12	18⅛	18½	18¼	+ ⅛
13¾	5⅞	Advest	.12	1.8	9	69	6⅞	6¾	6¾	− ⅛
64¾	39¼	AetnLf	2.76	6.0	6	1643	45¾	45¼	45⅛	+ ⅛
83½	41	AfilPub	.40b	.7	36	552	58	57⅝	60⅛	− ⅞
60¾	13	Ahmans	.80	5.4	11	1949	18½	18⅜	18⅜	− ⅛
4⅝	1⅛	Aileen				132	5¼	3¼	3⅜	− ⅛
53⅞	28	AirPrd	1.20	2.3	15	1320	52	60¾	21⅝	+ ⅛
33¾	11⅛	AirbFrt	.30	3.2	38	497	19⅞	18⅛	18⅞	
10¾	6¼	Airgas			17	181	13⅞	15⅝	13⅞	+ ⅛
20	13½	Airlease	2.30	12.	10	24	10¾	19½	19⅝	
9⅞	7⅝	AlaP dpf	.87	9.4		5	9¼	9¼	9¼	− ⅝

Continued on Page 37

NYSE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous Page										
54¼	29⅞	Raycm	4.28	.9	17	384	50⅞	49⅞	49⅞	− ⅛
20⅛	8⅝	RJamFn	.16	1.6	11	7	10⅛	10	10	− ⅛
29⅞	14⅞	Rayonr	2.60	12.	9	34	20⅞	19⅞	20	− ⅛
13	6	Raytch	.05e	.9	80	3	5⅝	5⅝	5⅝	
84⅞	67⅛	Raythn	2	3.1	10	2086	65⅞	65	65½	+ ⅛
7½	1¼	ReadBt				97	7⅛	1⅛	1⅛	
[illegible]	3⅛	RdBat pf				31	4⅛	4⅛	4⅛	
[illegible]	14¾	REIT	1.34	8.2		200	16⅛	16	16⅛	
17	13	RltRef	1.72	11.	9	10	15⅞	15⅛	15⅞	+ ⅛
21⅞	6⅛	RecnEq			32	647	7½	7⅛	7⅛	
12	5⅛	Redmn	.36	5.1		120	7⅛	7	7	− ⅛
23	7	Rebok s	.30	1.9	10	7584	16	10	15⅞	+ ⅛
16	8¾	Reece	.10e	.9	16	13	11⅝	11¼	11⅝	+ ⅛
2½	13-32	Regal				195	15-32	13-32	15-32	
7⅞	4¾	RegIFn	.25e	3.8		406	6½	6¼	6½	+ ⅛
17⅞	17	ReichTg	1.76	11.	16	34	15⅞	15¼	15⅞	
11½	4½	RelGrp	.24	4.7	4	12	5⅛	5⅛	5⅛	
8⅛	4⅞	RepGyp	.38	6.7	24	44	5½	5⅛	5⅛	− ⅛
68⅛	38⅛	RepNY	1.20	2.7	282	52	45⅛	44½	44½	− ½
61⅛	28	ReyMt	.80	1.5	11	4519	55⅛	52⅞	53⅛	− ⅛
22⅛	8⅛	Rhodes	.48	1.8	16	185	21¾	21¼	21¾	− ⅛
46⅛	25½	RiteAid	.74	1.9	17	231	38⅞	38⅛	38⅞	− ⅛
1⅛	½	RvrOak				13	9-16	9-16	9-16	
20⅛	11½	Robtsn			4	8	13⅛	13⅛	13⅛	− ⅛
20⅞	12⅛	vjRobins			23	137	25	24⅞	25⅞	− ⅛
18⅛	14¾	RochG	1.60	8.3	12	226	18	17⅞	18	+ ½
49¾	37	RochTl	2.72	5.7	14	41	47⅞	47⅛	47¾	+ ⅛
12⅞	5⅝	Rckwy	.36	3.9	15	208	9⅛	8⅞	9⅛	
29⅛	14⅛	RckCtr	1.84	9.6	14	698	19⅛	18⅞	19⅛	+ ⅛
29⅞	14⅛	Rockwl	.72	3.4	9	3310	21½	21⅛	21⅛	− ⅛

AMEX COMPOSITE PRICES

Closing Prices June 23

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OVER-THE-COUNTER

Nasdaq national market, 3pm Prices June 23

Continued on Page 37

AMERICA

Dow falters amid profit-taking as bonds keep rising

Wall Street

US FINANCIAL markets had a quieter session yesterday, consolidating their position after Wednesday's substantial gains, *writes Janet Bush in New York.*

The Dow Jones Industrial Average closed 3.91 points lower at 2,148.29. Business was active with 187m shares traded.

While there was some profit taking in the equity market, which pushed the Dow below Wednesday's post-crash closing high, bonds continued to gain ground, helped by a downward revision in gross national product (GNP) growth and also in the implicit price deflator, a key indicator of inflation.

Bond prices were quoted as much as ½ point higher at mid-session but then drifted back a little during the afternoon session. In late trading, prices stood about 7/16 higher with the Treasury's benchmark long bond up ½ for a yield of 8.89 per cent.

First quarter GNP was revised to a rate of 3.6 per cent from 3.9 per cent previously reported and the deflator was revised to 1.4 per cent from 1.7 per cent.

Coming on top of Wednesday's news of a 2.2 per cent fall in durable goods orders in May, which provided tentative evidence that the boom in US manufacturing may be slowing, the downward revision in the GNP numbers encouraged bonds.

The dollar, which has largely been at the back of rallying markets this week, came off its highs yesterday. It was quoted in late New York trading at Y128.60 and DM1.7850 compared with earlier highs of Y129.75 and DM1.7940.

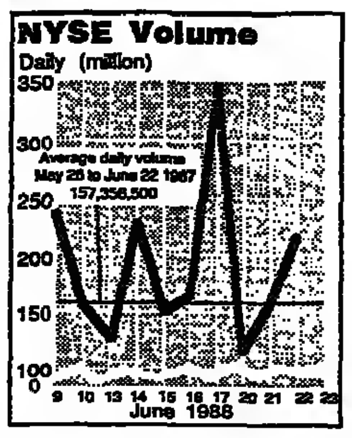
However, there has been a great deal of speculation in the wake of the Toronto summit that the Group of Seven has agreed to allow the dollar to trade in a higher range.

Ms Maria Fiorini Ramirez, money market economist at Drexel Burnham Lambert, speculates that, although there was not an explicit directive in the summit communique to this effect, there may have been a decision to co-ordinate policies to keep the dollar at higher levels over the next few months.

Firstly, a stable dollar going into the elections would help Mr George Bush. Secondly, a concerted effort to keep the dollar higher would encourage inflows into US markets but not put much of a dent in trade flows, Ms Ramirez argues.

The bond market was encouraged by strong demand at Wednesday's two-year note auction, suggesting improved interest in the market.

The major problem for the equity market is that it is trading at its highest level since the October crash, which weighs on the market psychologically and makes profit-taking more likely. The last strong rise to post-crash highs after last week's trade release was followed by a substantial fall.



One factor which may keep the market supported over the next week is the proximity of the end of the quarter. Traders have attributed this week's large gains in part to "window dressing" as institutions strive to increase the stocks components of their portfolios and cut their cash positions.

One featured sector in the equity market yesterday was banking where money centre stocks did well in reaction to news of Brazil's proposed settlement with its bank creditors. Citicorp added $⅛ to $24½, J.P. Morgan rose $⅜ to $38¾ and Manufacturers Hanover gained $⅝ to $30⅝.

GAF Corp, the specialised chemicals manufacturer, fell $1¾ to $46⅝ after reports that the company was being investigated for possible criminal securities law violations related to its accumulation of Union Carbide Stock.

Canada

STOCK PRICES closed lower in Toronto, following Wall Street on a profit-taking course, analysts said. The composite index retreated 3.3 to 3,440 on active volume of 34.3m shares.

Frankfurt's DAX index to give real time prices

By Haig Simonian in Frankfurt

INVESTORS in West German shares will have to get used to a new name from July 1. For, in a country already replete with equity indices, that is when the Deutsche Aktienindex (DAX), the latest contender, comes on stream.

DAX has a marked advantage over all its rivals as it is the first index to track West German share prices in real time. Based on the real-time index introduced on an experimental basis at the beginning of this year on the Frankfurt stock exchange, DAX follows the price movements of 30 leading shares, which it recalculates every 60 seconds during official trading.

Using information from KISS – Kurs Information Service System, the Frankfurt bourse's computerised share price information system – DAX has the backing of the Boersen-Zeitung, a leading financial newspaper, which is dropping its existing index in DAX's favour. The new index is also supported by the Association of German Stock Exchanges, the umbrella grouping of West Germany's eight bourses.

Mr Ruediger von Rosen, executive chairman of the AGSE, said that the creation of DAX was a must. "It's widely said that there are more stock indexes in Germany than stocks. But none of these indexes is universally accepted. This causes considerable irritation, especially abroad."

At present, the most widely used indices are the FAZ index and the Commerzbank index, both of which are compiled only once a day. The Commerzbank is based on Düsseldorf prices.

The fact that DAX, which will also serve as the basis for an equity futures contract on the planned new West German futures exchange, is based exclusively on Frankfurt prices points to a further consolidation of that market's role as West Germany's leading bourse.

The new index, which is based on prices at the end of last year (=1,000) and weighted on the basis of companies' listed capital at the end of 1987, uses turnover, market capitalisation and the early availability of opening prices as its selection criteria.

However, there are no surprises in the shares chosen. Chemicals take pride of place, with Bayer having a 9.57 per cent weighting, followed by Hoechst (8.13) and BASF (8.06). Banks come next with 15.59 per cent, followed by motors with 12.69.

The index will be reassessed once a year to mark changes in capitalisation or trading characteristics.

Though the chances of alterations owing to takeover is unlikely in the conservative world of West German big business, one planned constituent, AEG, was eliminated before launch and replaced by Henkel following Daimler's bid to take full control of AEG. It is planned to have three substitute companies available, though it has not yet been decided which these should be.

Unusually, the index will be adjusted to reflect dividend payments, in order to iron out anomalies triggered by ex-dividend markdowns in share prices.

That decision could lead to brief inconsistencies at the start of morning trading, when the previous night's closing price - which is used to calculate the index until a new morning price is set - will be adjusted for the dividend.

MARKET PROFILE

Launch of bourse series

THE Financial Times launches a series of stock market profiles on this page next Tuesday, June 28.

The series, which will run on most days of the week during the summer, will feature detailed information gathered by FT correspondents on more than 20 stocks markets around the world.

With the exception of the three leading markets – Tokyo, New York and London – about which information is readily available, the series will cover the main established markets of the world as well as many of the smaller and less familiar exchanges in Europe, the Far East and South America.

The purpose is to provide readers with comprehensive information that is often hard to come by. The profiles will look at recent developments in each market, such as computerisation of trading.

They will also contain basic facts such as market capitalisation, turnover, number of shares listed and trading hours. Key facts will be given in the form of a table, providing a quick reference guide.

Information will also be provided in the profiles about settlement, withholding tax, voting rights and restrictions on foreign ownership of shares, where these are applicable.

The series will be accompanied by the logo (left) and will start on Tuesday with a profile of the Swiss markets.

EUROPE

German market loses momentum

THE overnight rise on Wall Street fuelled further gains on most European bourses yesterday, but investors seemed reluctant to push Frankfurt higher after its recent rally and equities closed marginally lower there, *writes Our Markets Staff.*

FRANKFURT fell back after two days of strong rises as investors became worried at the gains and at the possibility of a rise in discount rates, following the Bundesbank's decision on Tuesday to raise the securities repurchase rate.

The FAZ index eased 1.24 to 475.72 after reaching a 1988 high on Wednesday. One analyst said: "There simply isn't the courage at the moment to push share prices higher." But sentiment remained positive, he added.

Turnover was estimated to be similar to the previous day's DM3.5bn worth of shares, with strong turnover in stocks going ex-dividend, such as Bayer, down DM2.40 at DM284.30 after paying out a DM11 dividend.

Machinery and engineering issue MAN rose further, adding DM1.20 to DM189.70, while Mannesmann eased DM1.50 to DM157. Krupp, which said it had been operating profitably so far this year, eased DM1.20 to DM99.80.

Bonds were fixed higher and the yield on the 6½ per cent 1998 unit fell to 6.60 per cent from 6.63 per cent.

PARIS was hit by a third strike by bourse employees, which was again accompanied by a bomb threat, causing another brief evacuation of the building.

In spite of the disruption to trading, which meant that certain key stocks were not quoted, the market began the first day of the new monthly trading account in strong form, with the EFX 50 share index rising 2.64 to 351.50 after reaching a day's high of 352.01. Wall Street's overnight strength was a positive factor, but the strike left volume very thin.

International traders in London said the strike was making it difficult to track the Paris market and overseas investors had switched attention from France to other European markets.

Moulinex, the household appliance maker, continued its rising streak following its forecast of a 20 per cent increase in turnover this year. The stock added FFr4.40 to another 1988 high of FFr89, giving it a 17 per cent jump in two days.

Schneider, the engineering stock, recovered FFr26 to FFr356 after losing ground when its bid for Télémécanique was given the go-ahead.

A share price for Cie du Midi, shareholders in which approved the planned insurance merger with the Axa group, was not available because of the strike.

AMSTERDAM had another firm day, although prices came off the top in profit-taking after Wall Street opened hesitantly and the dollar lost some ground. The CBS all-share index closed 0.2 higher at 91.7.

Philips attracted overseas interest, rising 70 cents to Fl 32.10. The electronics group said it was close to selling a small gas plant in the Netherlands to France's Air Liquide.

KLM also found demand, adding 80 cents to Fl 37.70, while Royal Dutch was up Fl 1.70 at Fl 231.60, slightly below the day's high.

Borsumij Wehry, the trading company, was off Fl 1.50 at Fl 104.30. It had earlier risen to Fl 106.50 after saying turnover increased by 20 per cent in the first five months of the year and that it expected 1988 earnings per share to be steady or better.

MILAN saw active trading again in issues in the De Benedetti group and in Ferruzzi-Montedison stock, and the MIB index climbed 9 to 1,051.

Reports of a long-awaited deal between Mr Carlo De Benedetti and Suez of France over Société Générale de Belgique led to gains for Cir, up L128 at L5,790, Olivetti, L140 higher at L10,260, and Cofide, which rose L175, or 3 per cent, to L5,735.

ZURICH closed slightly up after heavy trading encouraged by the post-crash high on Wall Street and the firmer dollar. The all share Swiss Index was 3.3 points up at 875.9.

Trading also got a boost from news that the board of Rowntree, the UK confectionery group, was backing the bid from foods group Nestlé. Nestlé bearers closed SFr20 higher at SFr8,670 and bearers of rival bidder Jacobs Suchard, which would make a hefty profit from the sale of its Nestlé stake, rose SFr125 to SFr7,850 francs.

Ciba-Geigy gained a further SFr50 to SFr3,450, after Wednesday's news that it was starting human clinical tests on an AIDS-related vaccine.

Crédit Suisse rose SFr30 to SFr2,560. The bank announced that it had established a wholly-owned subsidiary financial services unit in Australia.

STOCKHOLM gained ground although turnover was again light before Sweden's mid-summer holiday weekend.

The Affärsvärlden index rose 3.2 to 863.3, with volumes reaching SKr260m.

The market was brightened by news of the purchase by Atlas Copco of drilling equipment company Secoroc. Atlas rose SKr4 to SKr209.

BRUSSELS was inspired by rises on other bourses and by the stronger dollar, and the forward market index climbed 64.67 to 5,059.53.

Petrofina was again active, finding BFr500 to BFr13,700, having reached BFr13,960.

In the non-ferrous metals sector, Acec put on BFr18 to BFr622 and Asturienne rose BFr92 to BFr980.

MADRID followed Wall Street higher and the general index added 1.62 to 297.45, nearing the 300 level where it has been seeing resistance.

Telefonica was up 4.75 percentage points at 194.75 per cent of par, with demand encouraged by the rise in the dollar against the peseta, according to one analyst.

London

DEMAND for Rowntree shares, *following the food group's* acceptance of a bid from Nestlé of Switzerland, led the market higher in early trading.

But a weak bond market hit confidence and eliminated gains, with the *FT-SE 100* index easing 0.4 to 1,878.9, after rising 13 points early in the day. Turnover in blue chip exporters was brisk.

SOUTH AFRICA

GOLD issues closed little changed after drifting aimlessly around Wednesday's closing levels in an uncertain market.

The weakness of the financial rand continued to offset the lower bullion price, supporting gold shares.

Movements were few and small. Vaal Reefs closed R2.50 up at R252 while Freegold shed 25 cents to R27.25.

Among non-gold issues, De Beers, the diamond group, firmed 25 cents to R36.50 and Rustenburg gained 15 cents to R37.15.

ASIA

Slide continues as dollar's climb unsettles investors

Tokyo

THE dollar's sharp rise against the yen dampened investor enthusiasm in Tokyo yesterday, and share prices fell for the fourth consecutive trading day, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average ended 127.85 lower at 27,732.93. Its high for the day was 28,008.58 against a low of 27,692.63. Volume decreased to 989m shares from Wednesday's 1.25bn and declines led advances by 550 to 355, with 160 issues unchanged.

The dollar gained strength against the yen on the Tokyo foreign exchange market yesterday, spurred by interest rate hikes by key European nations. The US currency rose to Y129.80 at one stage before closing at Y128.55. This sparked small-lot selling for profit and many investors became uncertain about the market's direction.

High-technology stocks were sought in early trading on expectations that the yen's decline would help export profitability. But buying interest soon faded.

Matsushita Electric Industrial advanced Y40 at one stage, but came under selling pressure later to close Y10 lower at Y2,500. NEC ended unchanged at Y2,100 after rising Y40 briefly, while Fujitsu fell Y20 to Y1,510 and Toyota Motor Y50 to Y2,270.

Toshiba gained Y13 briefly, bolstered by demand from leading securities houses, but the issue finished only Y2 higher at Y911. Mitsubishi Electric dipped Y4 to Y820.

With buying interest in high-technology stocks curtailed, many investors sought steel issues again.

Steels drew small-lot buying in late trading. Kawasaki Steel topped the active list with 73m shares changing hands and closed Y11 higher at Y574 after declining Y7. NKK added Y3 to Y534, Nippon Steel Y10 to Y556 and Sumitomo Metal Industries Y11 to Y514. NKK was the second busiest issue with 67m shares traded, Nippon Steel third with 49.5m shares and Sumitomo fourth with 37m shares.

Small and medium-sized steel issues attracted strong buying interest along with machineries. Kitagawa Iron Works scored a maximum allowable single-day gain of Y108 to Y1,090. Kurita Water Industries jumped Y90 to Y1,310, Tsugami Y42 to Y810 and Pacific Metals Y72 to Y962.

Bond prices moved erratically in response to violent movements in the yen's exchange rate.

Concern grew among dealers about a possible rekindling of inflation following the yen's fast decline against the dollar. Whether the Bank of Japan will move to raise the official discount rate to cope with the yen's rapid drop is now the focus of their attention.

The yield on the benchmark 5.0 per cent government bond, maturing in December 1997, rose to 4.915 per cent at one stage from 4.83 per cent at Wednesday's close. The benchmark issue was then bought and its yield ended at 4.885 per cent.

The Osaka Securities Exchange ended moderately lower, with the 250-issue OSE stock average off 91.41 at 27,963.90. Volume was estimated at 71.4m shares, down 41m from the previous day.

Australia

A FALL in the bullion price and the expiry of June options led to a wave of selling which wiped out early gains in heavy volume. The All Ordinaries index fell 12.1 to 1,600.8, with resource stocks leading losses.

Optimism about the sharp overnight advance on Wall Street was offset by losses in Tokyo.

The gold index dropped 41.8 to 1,972.1 and the all-resources index lost 9 to 897.8. Industrials were weaker, but not as badly affected.

Singapore

THE STRONG rise on Wall Street, coupled with a narrowing in the Singapore trade deficit in May, pushed share prices sharply higher in heavy trading.

The Straits Times industrial index climbed 11.45 to 1,083.44 in turnover of 76m shares compared with 60m on Wednesday. The trade deficit fell to S$508m in May from S$651m a year earlier.

Some profit-taking broke out later in the session after losses in Tokyo, but it was well absorbed by the buoyant market. Among the strongest blue chips, OCBC and Singapore Land both improved 35 cents to S$8.15 and S$7.15 respectively.

Hong Kong

EARLY gains were eroded after Tokyo fell and equities closed only marginally higher, with the Hang Seng index up 8.5 at 2,712.24. Worries over possible rises in domestic interest rates also curtailed demand.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	THURSDAY JUNE 23 1988					WEDNESDAY JUNE 22 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (88)	147.65	-1.0	124.58	120.20	3.72	149.09	124.98	121.12	150.35	91.16	132.75
Austria (16)	85.31	-0.4	71.99	79.15	2.60	85.64	71.79	79.03	98.18	84.35	85.92
Belgium (63)	122.62	+1.6	103.46	113.54	4.43	120.73	101.21	111.35	139.89	99.14	120.97
Canada (125)	128.22	+0.6	108.20	111.79	3.01	127.52	106.90	111.73	128.22	107.06	127.44
Denmark (39)	129.95	+0.5	109.65	119.97	2.42	129.31	108.40	118.80	132.72	111.42	118.95
Finland (25)	134.00	-1.3	113.07	119.18	1.76	135.82	113.86	119.46	139.53	106.78	–
France (127)	96.12	+0.4	81.11	90.70	3.58	95.70	80.23	89.85	99.62	72.77	104.87
West Germany (99)	76.30	-0.6	64.38	70.85	2.62	76.77	64.36	71.00	80.79	67.78	96.60
Hong Kong (46)	109.17	+0.3	92.11	109.32	4.19	108.80	91.21	108.97	109.20	84.90	124.20
Ireland (18)	140.31	+1.7	118.40	131.28	3.61	137.97	115.66	128.45	141.54	104.60	129.76
Italy (102)	72.35	+0.3	61.05	71.59	2.81	72.16	60.49	71.02	81.74	62.99	99.52
Japan (456)	166.94	-0.4	140.87	135.76	0.53	167.58	140.49	136.28	177.27	133.61	147.54
Malaysia (36)	152.02	+0.9	128.28	151.52	2.40	150.64	126.28	149.77	152.02	107.83	171.11
Mexico (14)	169.25	-5.5	142.82	422.84	1.18	179.15	150.19	447.58	180.07	90.07	249.28
Netherland (38)	106.07	+0.0	89.50	97.40	4.75	106.06	88.92	96.89	110.66	95.23	121.14
New Zealand (21)	82.30	-0.7	69.45	61.76	5.93	82.92	69.51	61.35	84.05	64.42	98.63
Norway (25)	125.72	-0.3	106.08	110.19	2.74	126.04	105.66	109.74	132.23	98.55	137.26
Singapore (26)	122.29	+0.7	103.19	114.63	2.19	121.39	101.77	113.78	123.33	97.99	145.61
South Africa (60)	126.05	-1.5	106.37	86.11	5.11	128.02	107.32	85.71	139.07	118.16	156.80
Spain (42)	157.26	+0.1	132.70	140.46	3.09	157.08	131.69	139.89	164.47	130.73	121.54
Sweden (35)	120.18	+0.0	101.41	109.86	2.60	120.12	100.70	109.32	125.50	96.92	113.30
Switzerland (55)	81.72	+0.2	68.95	74.88	2.28	81.59	68.40	74.54	86.75	75.60	98.58
United Kingdom (327)	137.16	-0.6	115.73	115.73	4.27	137.96	115.66	115.66	141.18	123.09	148.93
USA (577)	112.01	-0.2	94.51	112.01	3.50	112.27	94.12	112.27	112.27	99.19	126.40
Europe (1011)	108.81	-0.2	91.81	96.93	3.69	109.06	91.43	96.63	110.82	97.01	121.42
Pacific Basin (673)	163.86	-0.4	138.27	133.90	0.73	164.49	137.90	134.41	172.26	130.81	146.04
Euro-Pacific (1684)	141.86	-0.3	119.70	119.14	1.65	142.34	119.33	119.33	147.53	120.36	136.23
North America (702)	112.87	-0.2	95.24	112.01	3.47	113.08	94.80	112.25	113.08	99.78	126.45
Europe Ex. UK (684)	91.22	+0.1	76.97	85.18	3.18	91.13	76.40	84.74	92.99	80.27	104.35
Pacific Ex. Japan (217)	126.78	-0.4	106.99	110.76	3.87	127.35	106.76	111.02	128.15	87.51	127.85
World Ex. US (1883)	141.26	-0.3	119.20	118.69	1.72	141.72	118.81	118.87	146.49	120.26	136.21
World Ex. UK (2133)	129.22	-0.3	109.04	116.40	2.10	129.56	108.62	116.64	131.77	111.77	130.74
World Ex. So. Af. (2400)	129.93	-0.3	109.64	116.54	2.28	130.31	109.24	116.76	132.39	113.26	132.20
World Ex. Japan (2004)	112.17	-0.2	94.65	106.57	3.58	112.43	94.25	106.61	112.43	100.00	125.15
The World Index (2460)	129.91	-0.3	109.62	116.33	2.30	130.30	109.23	116.54	132.38	113.37	132.35

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

French prices were not fully updated June 23.

SECTION III

FINANCIAL TIMES SURVEY

Despite the present strength of US exports and manufacturing, the threat of inflationary overheating and the possibility of recession looms large as the business cycle moves into an almost unprecedented seventh year of growth, as **Anatole Kaletsky** reports here from New York.

Uneasiness prevails

US Banking and Finance

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Foreign portfolio investment; foreign takeover deals; changes in banking legislation. PAGE 6

Secondary stocks; brief recovery for insurance sector. PAGE 7

Institutional fund management; Wall Street brokers make painful adjustments. PAGE 8

FINANCIAL MARKETS are nothing more than mirrors. They may be mirrors of the fairground variety, distorting and exaggerating the economic reality which they reflect. But there is always some kind of correspondence between what happens in the financial system and the world outside it, and it is precisely when reality seems hardest to reconcile with its financial image that the relationship between the two becomes most critical to understand.

Never has this been truer than it is at present, for never has the mood of the stock and bond market, the stability of the entire financial system and the fate of the economy been so inextricably entwined.

Ten years ago, it might have been possible to consider the prospects for US commercial banking or real estate investment quite separately from the performance of the stockmarket. But the unbridled financial confidence of the great bull market has generated so many by-products - so many audacious leveraged buyouts, such daring asset revaluations, such bold new forms of securitised lending - that tremors on Wall Street today are bound to be transmitted to every corner of the real economy as well as to the rest of the financial world.

This makes it all the more ominous that in the past few years US financial markets have parted company with reality repeatedly and in the most spectacular manner. Last summer there was the feverish climax of the bull market, followed almost immediately by the sudden panic of the October crash. A few years earlier, there was the mindless speculation on an ever-rising US dollar, followed last winter by the currency's seemingly bottomless collapse. The credit markets, too, have swung from panic to euphoria and back to terror.

Until last October, this chaos in the financial world was phenomenally profitable for individual financiers, if not necessarily for the firms in which they worked.

Yet despite the huge personal rewards they reaped from being part of the "volatility industry", many American financiers had warned for years about the contradiction between the prosperity on Wall Street and the apparent erosion of the real economy outside the financial world.

Considering the frequency and urgency of these warnings, the most surprising thing about the crash was that it caused so much surprise. Everyone had known for years that the US economy was balanced on a knife edge. But by the summer of last year Wall Street had seemingly forgotten about the risk premiums investors normally expect when they are asked to fund an economic circus act.

Yet, far from offering a risk premium, price-earnings ratios and dividend yields on Wall Street were at their classic top of the market levels. It was only a matter of time before financial perception came back into line with economic reality. Essentially the market collapsed because it was too high. These wise words were spoken the day after the crash by President Ronald Reagan. Nine months, millions of dollars, and thousands of pages later, they still stand as the most intelligent analysis of Black Monday to have come out of Washington or Wall Street.

Indeed, in the immediate aftermath of the crash, President Reagan's analysis seemed to encapsulate more or less everything that needed to be said about the state of the US financial system and its relationship to the economy.

The economy seemed to be weakening and the destruction of asset values in October was aggravating this process. The natural response was the one that Mr Alan Greenspan at the Fed and Mr James Baker at the Treasury promptly adopted. They cut interest rates and devalued the dollar aggressively – the first to maintain financial stability, the second to narrow the trade deficit and stimulate the flagging domestic economy.

With the market's euphoria duly dampened, financial expectations finally appeared to be converging towards the unexciting, but not disastrous, outlook for the real economy - a period of very modest growth, with gradual strengthening of manufacturing and exports roughly offsetting weaker housebuilding, consumer spending and other components of domestic demand.

Then, soon after the New Year, something more surprising than the crash happened. The US economy forgot about the stockmarket debacle and took off on an apparently unstoppable trajectory of strong, profitable, export-led growth.

It turned out, more precisely, that the economy had already started moving along a very powerful growth path in the three months prior to October. The crash interrupted this trend temporarily before Christmas, but ultimately may even have reinforced it, by helping to lower interest rates and accelerating the dollar's slide.

The recent realisation that the US economy is growing much faster than almost anyone had expected a few months ago has thrown all the financial markets into a manic depressive confusion. Once again financial markets and the real economy seem to be moving out of kilter.

But while at the beginning of last year it was the economy that faltered while the stockmarket moved in a straight line upwards, today it is the other way round: the better the economy performs, the more confusion and anxiety grips the markets.

Conventional wisdom has a simple answer to this conundrum. Investors are said to be afraid of inflation and economic overheating caused by excessive growth. This is indeed the overriding economic concern today on Wall Street – but it provides only a very partial explanation of the intensity of fear.

If overheating were genuinely the main economic problem, there would be a ready answer. A further tightening of monetary policy – a step which the Federal Reserve Board has been clearly willing to take this year – could keep the threat in check until November's Presidential elections. Beyond that, a strong economy would create an excellent environment for gradual budget deficit reductions, whether Mr Bush or Mr Dukakis took charge of the White House in 1989.

This scenario is perfectly plausible and if it were played out, the dramas of the 1980s might have a happy ending. The 1982-88 economic expansion could be extended by several more years of steady growth and moderate inflation. It would be just a matter of time before last summer's stockmarket peaks were repeated and surpassed.

The true reason for the financial markets' distress, however, is that inflationary overheating is not the only threat to the economy's well-being. Despite the present strength of exports, manufacturing and employment, the possibility of a recession is looming larger every month, as the business cycle moves into an almost unprecedented seventh year of growth.

With future prosperity now dependent on capital investment and exports instead of consumption and government spending, even a slightly miscalculated monetary tightening could throw the economy off its expansionary course.

That is, of course, a risk in any economic expansion. What is unusually worrying today is the vulnerability of the US financial system to any such sudden change of direction. One only has to consider the estimated $55bn cost of rescuing the country's insolvent savings and loan institutions, even assuming that economic prosperity continued, or to examine the balance sheets of some big commercial banks or even read a bond prospectus for a typical leveraged buyout, to understand that financial disasters could spread like forest fires if a recession ever took hold.

In other words, after six years of uninterrupted economic growth, the US financial system is still too weak to withstand the pressures of a recession. The US is "capitalised for prosperity," to quote Grant's Interest Rate Observer, a leading Wall Street newsletter. And because weaknesses in financial institutions inevitably exacerbate the other problems of recession, that is a very dangerous state.

If anything can justify the present edginess of the US and international financial markets, it is this combination of financial weakness and cyclical economic vulnerability.

Nobody can deny that there is a good chance of muddling through with a modicum of good luck and skilful policy-making at the Fed. The trouble is that if the muddling-through should fail, the scale of the financial and economic problems could be very great indeed. It would not take a 1930s style depression to severely damage the US financial system. A moderate recession like that of 1981 or 1974 would do harm enough.

If such a recession began to loom on the horizon, Black Monday might go down in the history books as only a prelude to the real crash of the 1980s.

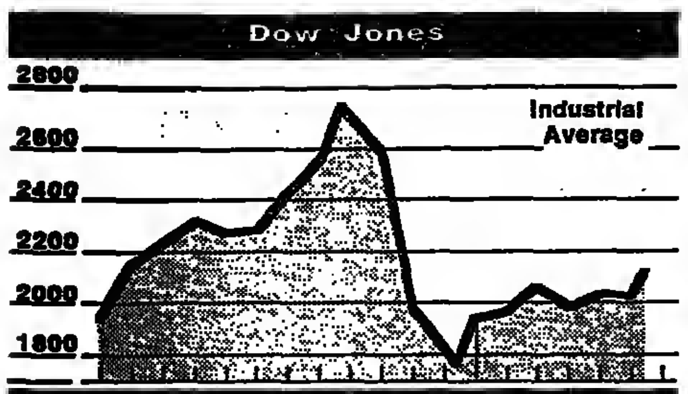
Price-earnings ratios on shares today are still almost double their typical recession levels – and despite the trauma of last October, there has been no evidence of the widespread asset liquidation that normally occurs before a bear trend is complete.

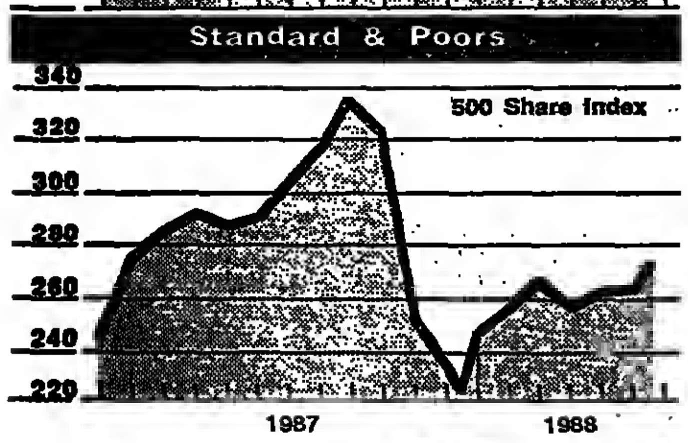
As Mr John Phelan, the thoughtful and candid chairman of the New York Stock Exchange, observed a few weeks ago, in a discussion about the stockmarket's prospects, "there were only 15 institutions selling heavily on Black Monday.

"What happens if, one day, the other 2,000 decide to sell?"

Eight months after the October crash, the debate in the financial markets rages on

Period of intense self-examination





AFTER THE crash came the post-mortem. America's politicians, academics and those involved with every aspect of the securities industry from New York to Chicago set about trying to understand why the markets crashed last October and to formulate an *appropriate response* to head off another crisis.

No other country produced the sheer weight of analysis, *nowhere* else was the possibility of re-regulation of financial markets discussed so widely.

In comparison with the wide-ranging and persistent debate which has raged in the US in the eight months since the crash, the response of other governments and stocks exchanges overseas has seemed relaxed in the extreme.

Take the example of computerised trading strategies called programme trading which has been one of the most intensely debated issues in the US since the crash.

The New York Stock Exchange decided to impose restrictions on the use of its electronic systems for stock index arbitrage in response to *official reports* suggesting that this strategy, while not triggering the October crash, had probably contributed to the speed at which it occurred and exacerbated volatility.

Stock index arbitrageurs hedge their exposure to the stock market by, for example, buying a basket of shares and selling the equivalent shares on the futures market. Use of this strategy can also be speculative as arbitrageurs take advantage of price differences between the cash and futures markets.

In the weeks after the NYSE announced its restrictions, many of the heaviest users of this strategy announced that they would refrain from arbitrage on their own accounts as a contribution to rebuilding public confidence in the stock market.

The response in London was very different. The London Stock Exchange's report on the October crash suggested that more arbitrage was needed to *prevent* a dislocation of price between the cash and futures markets and heavier use of derivative instruments would enhance rather than damage investment in securities.

In the US, brokers cite programme trading strategies *as the* major reason for the low level of individual investment in the stock market since the crash. In *London, it hasn't been an issue.*

But for all the intense self-examination and calls for radical solutions, little concrete action has been taken since the crash despite calls for legislation by the Brady Commission, set up by the President to analyse the crash, which was given *strong* backing by Congress.

The Brady Commission's main recommendations were that *stock and futures exchanges* should co-ordinate emergency circuit breakers or trading halts; that margins should be raised in *the futures market;* and that an overarching regulatory body should be formed with the US Federal Reserve in overall charge.

Senator William Proxmire, chairman of the influential Senate Banking Committee, threw *his weight behind* the Brady Commission report, asking for formal legislative proposals from the US Federal Reserve, the Securities and Exchange Commission and the Commodity Futures Trading Commission, which regulates futures and options markets.

Despite all the calls for radical action, little change has so far taken place

He also introduced a bill which would set up a super-agency comprising the Fed, the *SEC* and the CFTC which would co-ordinate regulation and policy towards the financial markets.

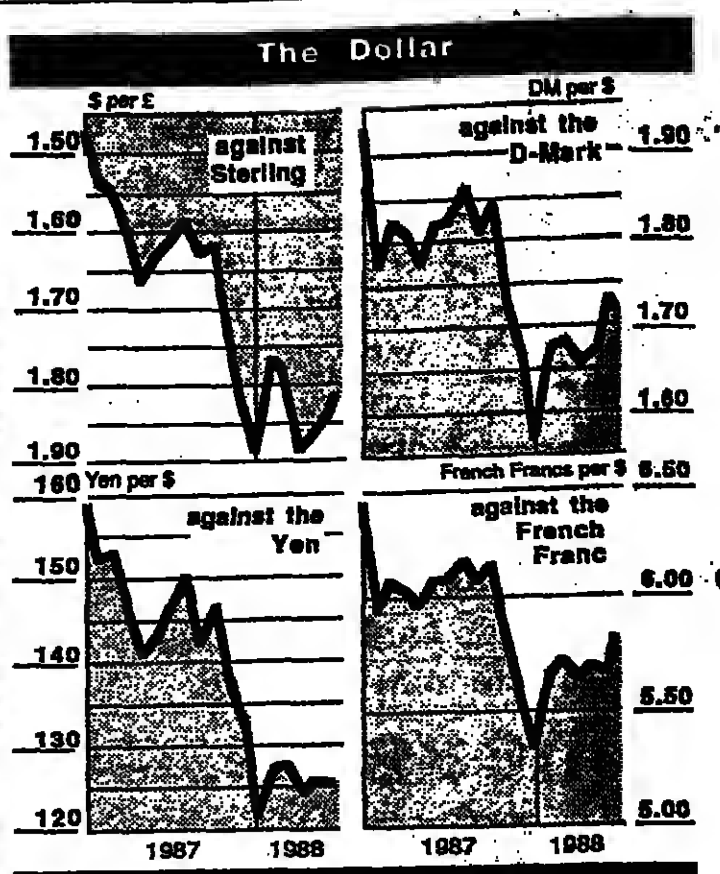
Senator Proxmire has met with as little joy as Mr Nicholas Brady, who led the Presidential taskforce. The Administration effectively wrested the initiative for post-crash legislation when the President set up a working group, headed by the Treasury and including the major regulators.

That group issued a preliminary report based on the various analyses of the crash and the opinions of people in the securities industry. That report *rejected* many of the Brady Commission's ideas and Senator Proxmire's superagency.

It also signalled its intention to *remain* the central forum of debate about the regulation of financial markets, saying that it would continue to meet to co-or*dinate* a response to the crash.

The only concrete proposal to emerge from the report was an agreement to *co-ordinate* circuit *breakers. The* Presidential working group agreed that trading in all market segments should be halted for one hour if any one market were to rise or fall by the equivalent of 250 points on the Dow Jones Industrial Average. Trading would be halted for two hours if that movement *equalled* 450 points.

A spokesman for the New York Stock Exchange acknowledged after the report was published that these circuit breakers would only have been triggered once in the history of the exchange and that would have been on October 19.



The Presidential working group acknowledged that it had been unable to reach agreement *on the question of margins* which has been a constant source of strain between the SEC and the CFTC.

Margins have actually been raised somewhat over the last few months but not by as much as the report by the Securities and Exchange Commission had recommended. Although these actions met with approval by Mr David Ruder, SEC chairman, there has still been not concession by the Chicago markets, concerned to maintain their autonomy, for more formalised rules on the setting of margins and co-ordinating margin levels between markets.

The furious pace of meetings between regulators and efforts to force the issue seem now to have reached a hiatus, partly because of the no-change stance taken by the Administration in the working group.

In the absence of legislative *initiatives,* the focus *is on* shifting practice within the securities industry itself. The stance of the industry is predictably anti-regulation and pro free markets.

The initiatives which have been taken such as the NYSE restrictions on stock index arbitrage and higher margins in the futures markets have been motivated, however, by a perceived need to take the speculative edge off financial markets and dampen down volatility which has frightened off individual investors.

Portfolio insurance, the computer-led asset allocation strategy which controlled as much as $80bn on the eve of the crash, has all but disappeared.

The attraction of the strategy was a belief that it would allow an investor to get out of the equity market quicker than anybody else, a perception which was disappointed in the admittedly extreme circumstances of last October. Few believe portfolio insurance will ever recover.

Stock index arbitrage, however, is far from finished. Although the largest securities houses have refrained from arbitraging on their own accounts, they continue to service demand for this strategy from their institutional clients. Even when the NYSE limits have gone into effect, the largest firms have continued to execute arbitrage orders on the floor of the exchange.

The most likely future for stock index arbitrage is that it will evolve. The Presidential working group on the crash stood firm against calls for a ban on programme trading by Mr Donald Regan, former US Treasury Secretary, for example.

In a statement issued with the report in May, the group said: "It is unrealistic (and perhaps counter-productive) to try to undo the changes in financial markets or market strategies brought about by improvements in telecommunications and computer technology."

Some days later, Mr Alan Greenspan, chairman of the US Federal Reserve, testified to Congress that placing restrictions on stock index arbitrage could limit liquidity and even destabilise markets.

His comments provided firepower for securities houses wanting to resume arbitrage and one – Bear Stearns – put out a statement that day saying it was reconsidering its decision to pull out of stock index arbitrage.

In the longer run, the willingness or not of individual investors to re-enter the stock market will to some extent dictate the approach of the securities industry on programme trading. If they do not return, pressure for more action to restore confidence is likely to build.

No other country has made such an intense crash analysis

For the time being, however, there is no doubt that the non-interventionist conclusions of the Presidential working group are likely to take the heat off securities houses heavily involved with computerised trading for the time being.

What is certain is that other forms of computerised trading strategy will flourish, partly because, whatever the fears, computerisation is cheap and efficient for investors.

Already, a computer-led investment strategy called Tactical Asset Allocation, which is low risk and provides for quick switches from equities into bonds, has attracted billions of dollars worth of new funds since the crash. The question is: will this develop into the programme trading of the 1990s?

Janet Bush

Foreign activities in U.S. equities

• Figures in $m

Country	1986 Gross Activity	1986 Net Transactions	1987 Gross Activities	1987 Net Transactions
Europe	141,811	9,569	232,283	1,864
Belgium-Luxembourg	8,525	633	11,708	435
France	9,581	459	19,920	903
Germany	9,992	341	16,204	(74)
Netherlands	6,246	936	11,267	890
Switzerland	36,962	1,500	59,493	(1,162)
U.K.	64,606	4,826	103,620	517
Canada	34,584	216	49,524	1,116
Latin America & Caribbean	39,192	3,031	46,870	1,318
Bermuda	11,836	794	10,428	(101)
Netherlands Antilles	11,606	226	15,551	224
Asia	55,285	4,851	142,349	11,536
Hong Kong	8,574	403	12,500	658
Japan	26,904	3,305	102,554	11,365
"Other Asia"	16,289	976	20,545	(1,961)
Total All Countries	277,509	18,719	461,500	16,273

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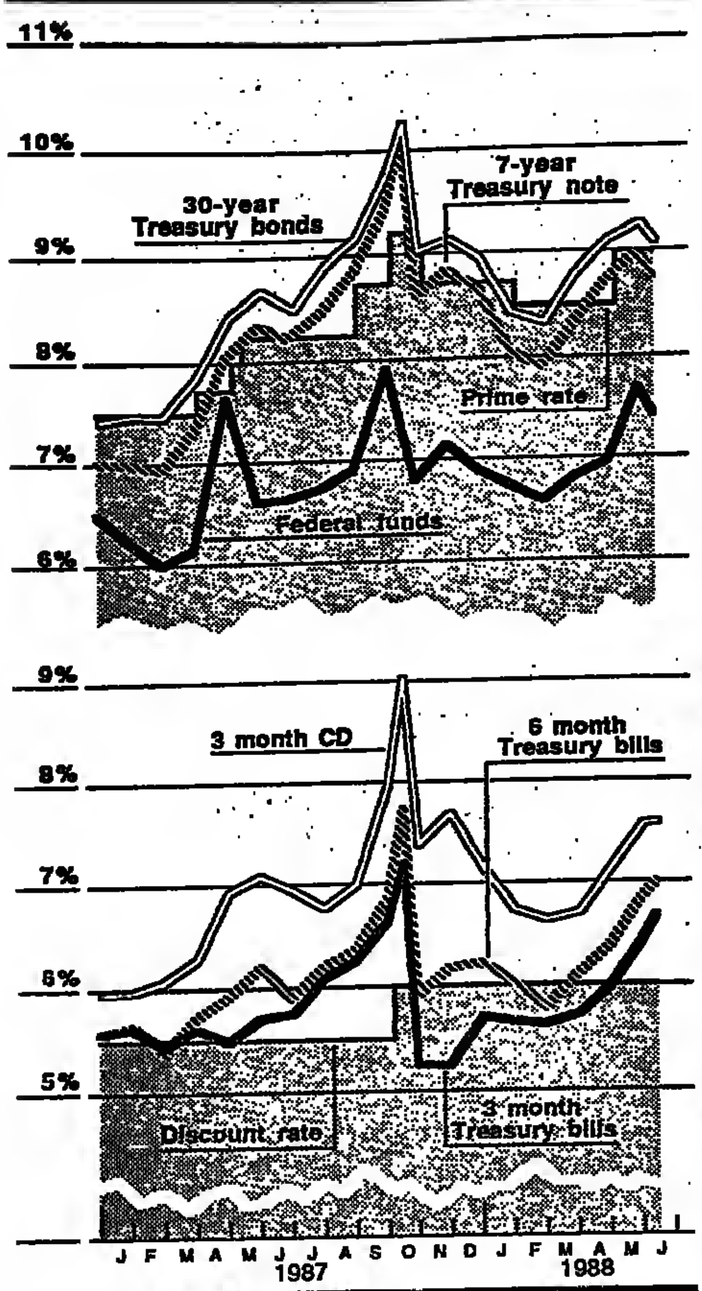
Interest rates



Upheavals in commercial banking

Big decisions ahead

UNLIKE THEIR better-paid counterparts in the investment banking business, US commercial bankers have lived for years with the knowledge that they faced a perilous future in a hostile world.

Every competent commercial banker in the US has known since the early 1980s that his industry would soon be going through a period of once-in-a-lifetime upheaval. And if he was honest with himself, he probably harboured a shrewd suspicion that his own company might not emerge as one of the survivors.

Familiar forces have interacted over the last decade to generate this sense of foreboding: new forms of security-based financing; worldwide competition among commercial bankers; and the overhang of bad debt created by the combination of disastrous misjudgements and macroeconomic upheavals in the last 15 years.

But, whereas everyone in banking has been aware for years that the industry would soon be irreversibly changing, it has only been in the last 12 months or so that US bankers have realised that the time for preparation and planning was over – that they now had to make the strategic choices which would shape their corporate development into the next century.

The most important catalyst for this ferment has been the piecemeal elimination of many of the regulatory constraints which limited the growth of banks into new georgaphic territories and products.

The days of the Glass-Steagall Act, which has kept the commercial banks out of the securities business since the 1930s, are now clearly numbered, after the April's 94 to 2 vote in the Senate for sweeping reform.

Even if the reform legislation is stalled in the House of Representatives until after the November election – a prospect which seems likely at present – this will scarcely hinder the steady encroachment by the commercial bankers into the Wall Street investment houses' traditional preserves.

The Supreme Court's ruling on June 13, which upheld the Federal Reserve Board's decision to let bankers underwrite commercial paper, mortgage-backed securities and municipal revenue bonds, will encourage further liberalisation by the Fed's administrative fiat, even if the legislators in Congress drag their feet.

Mr Alan Greenspan, the new Fed chairman, has set himself up as an unambiguous champion of liberalisation. The unprecedented takeover battle for Irving Bank between Bank of New York and Banca Commerciale Italiana has been one product of the Fed's new liberalism.

Mr Greenspan has said explictly that he sees no difference in principle between hostile and friendly mergers. With this kind of free market ideology still in the ascendant at the Fed, if not in Congress, the securities industry is realising that it could lose even more through piecemeal administrative deregulation than through legislative reform and is beginning to have second thoughts about its opposition to th erepeal of Glass-Steagall.

Meanwhile, the inter-state barriers which have hobbled the US banks' goegraphical development are disappearing even faster. Banking agreements between individual states and special proviosions for taking over failed and financially troubled instituions bave already created numerous multi-state bolding companies. By 1990, laws already on the statute books in over 40 states will have made virtually untrammelled interstate banking a fact of life.

Ironically, however, one of the clearest results of the structural changes in the industry will be to narrow the franchises of individual banks and force many of them to shrink their assets.

In part, the biggest US banks are having to rein in their growth in a long overdue reaction to their disastrous experiments with global expansion. Last year's establishment of large loss reserves against the Third World loan portfolios has left most of the largest US banks severely undercapitalised – a situation which has been greatly exacerbated by the international agreement on uniform capital requirements adopted by the world's central bankers.

Only three of the top 11 US banks – JP Morgan, Bankers Trust and First Interstate – would now be able to meet the international capital requirements, according to a study produced in June by IBCA, the London-based credit rating agency.

Most of the others could probably reach the required capital ratios by 1992 through retained earnings – but only if they avoided any new loan losses and kept their asset growth to more or less zero. Three major banks – BankAmerica Manufacturers Hanover and Continental Illinois would probably not attain the required capital ratios by 1992 even under these assumptions, according to IBCA.

Given these constraints it is not surprising that virtually all industry analysts are now agreed that US banks will have to define their corporate missions more sharply, concentrating on certain kinds of business while abandoning others and focusing on some parts of the country to the exclusion of opportunities elsewhere.

The industry is likely to regroup around six new types of banks.

There will continue to be a limited role for the very small local community banks which make up the vast majority of the 14,000 institutions in the fragmented US banking industry, but account for only a very small proportion of the total business.

The next tier up will consist of large regional banks, modelled on such highly successful institutions as Pittsburgh's PNC Financial, Atlanta's SunTrust, Charlotte's First Union and NCNB and Banc One in Columbus, Ohio.

At present these are the fastest-growing and most profitable banks in the US. In fact, so successful has been these banks' strategy of growth by acquisition of small consumer-oriented local banks that they command far higher stockmarket valuations than some of the mightiest money centre institutions.

For example, PNC Financial, ranks third in the country by market capitalisation behind Morgan, Citicorp. Its market value of $3.5bn put it slightly ahead of Security Pacific and well above Chase, BankAmerica and Chemical. Yet PNC's assets $31bn are less than one third of the $91bn held by Chase and rank it 15th among the US banks in terms of size.

Shading into this group will be the super-regionals. Their broad strategy will be similar to the regional banks but with more amphasis on institutional and international activities, stemming partly from the commercial importance of the regions they serve.

The promising super-regionals formed so far include Bank of Boston, Security Pacific and First Interstate in Los Angeles and Wells Fargo in San Francisco.

Next, there will be a small handful of specialised wholesale banks that will manage to straddle successfully the present boundaries between investment and commercial banking. This group currently includes only Morgan Guaranty and Bankers Trust.

Among the smaller aspirants to this strategy is Continental Illinois, the Chicago bank wbose near-failure in 1984 provoked the biggest government bailout in US history.

Finally, there will be the genuine universal banks, combining geographically diversified retail and wholesale banking, securities activities and a truly global reach.

Obviously, this is the category to which the erstwhile giants of US banking aspire. But it is questionable whether more than a small handful will be able to make it.

What of the other household names in US banking?

A few may surprise the analysts and build themselves up into effective and strongly capitalised universal banking institutions. Others may find profitable niches in specialised markets. Several will lower their sight to super-regional or regional status. And some will doubtless fall by the wayside, shrinking out of existence or falling victim to a foreign or domestic bid.

Anatole Kaletsky

Top U.S. Banks – First Quarter, 1988										
Name	Assets $bn	*Income $m	% charge on Year	*Provision ($m)	1Q88 NON-F performing loans ($)	As % of total loans	Return on equity*	Return on assets*	Primary Capital ratio	Shareholders' Equity ($m)
Citicorp	202.9	358.0	+34	283.0	6230.0	4.45	18.9	0.70	8.1	7200.0
Chase Manhattan	97.7	277.0	+166	150.0	4264.0	4.25	32.77	1.15	7.80	3457.0
Bankamerica	94.3	109.0	+82.7	115.0	3961.0	6.1	14.52	0.46	8.37	3385.0
J.P. Morgan	82.2	281.4	+24.3	50.0	1582.0	4.9	22.93	1.42	8.86	5257.0
Chemical New York	78.8	125.5	+45.6	105.5	3006.0	6.1	19.03	0.84	7.62	3036.0
Security Pacific	73.7	147.2	+26	78.6	1852.0	3.4	18.4	0.81	6.56	3477.0
Manufacturers Hanover	73.6	140.3	+73.2	141.5	4.95	3.2	24.17	0.75	7.28	2108.0
Bankers Trust	59.7	126.0	+1	10.0	1100.0;	4.4	17.23	0.88	8.33	3000.0
First Interstate	58.5	102.6	+27.3	76.4	2087.0	4.07	17.3	0.64	6.76	2309.9
Wells Fargo	44.5	120.4	+54	75.0	1550.3	4.2	N.A.	N.A.	9.02	1955.1
First Chicago	44.3	141.5	+122	100.0	1006.0	3.5	37.70	1.25	8.59	1922.5
PNC Financial	36.6	107.9	+13	34.6	423.2	1.97	19.67	1.21	7.57	2207.0
Bank of Boston	33.5	84.3	+18	36.0	1307.0	5.3	20.60	1.02	8.3	1814.0
Continental Illinois	31.1	68.5	+59	10.4	680.0	3.52	24.4	0.91	7.73	1418.0
Mellon Bank	30.9	25.0	N.M.	45.0	1254.0	6.29	8.65	0.34	8.41	1100.0

*Denotes first quarter, 1988; research by Richa Nachona, FT New York

Mergers and acquisitions

More deals than ever

AFTER lying dormant for several months after the crasb, US merger mania sprang alive again early this year. On present trenda, Wall Street firma will book a record volume of deals in 1988, making mergers and acquisitions one of their few currently lucrative lines of business.

All types of trades from takeovers to leveraged buyouts and all types of assets from whole companies to subsidiaries added up to some $218bn last year, compared with the existing record of $247bn in 1986. But in the first five months of this year the pace picked up again with completed deals totalling $82.2bn against $64.9bn in the year earlier period, according to data compiled hy Paine Webber.

In part, the surge is a delayed reaction to last October's crash. The collapse in stock prices made many companies instantly attractive targets but few buyers had been willing to gamble on being stuck with an acquisition if the economy was heading for a recession.

As soon as the general economic picture began to brighten early this year, raiders and corporate buyers piled back into the market. Their urge to deal was quickened by a number of factors including the fear that a new Administration in Wasbington come next January will tighten up on anti-trust and takeover issues.

Many mergers and acquisition specialists agree their business will remain cyclical, influenced by market and economic conditions. But they argue it will be a bigger permanent feature of Wall Street than in the past because their corporate clients are keener than ever on buying and selling assets as a management tool. Generally speaking corporations have been more active than raiders this year.

The attractions of buying rather than building businesses are obvious, according to Prof Laurence Summers, a Harvard economist. He estimates that companies are trading in the stock markets for 78 per cent of their replacement value, close to the post-war average, but down from a high of 99 per cent last August and up from the low of 47 per cent in the 1970s.

Even some of the most staid corporations have come to accept unfriendly takeovers as a legitimate strategy. It has become "respectable to belch in church," Mr Ronald Freeman, co-head of Salomon Brothers' mergers and acquisitions' department, was quoted in a recent interview. "Making an unsolicited offer for someone else'a stock is no longer the exclusive province of raiders."

Continued on page 5

Mergers and acquisitions

■ Valued at over $1bn, 1987-88

Year	Target	Bidder	Value $b	Status
'88	Sterling Drug	Kodak	5.10	Completed
'87	Ah Robins	Rorer	2.6	Completed
'87	Utah Power & Light	Pacificorp	1.90	Pending
'88	IMS Int'l	Dun & Bradstreet	1.80	Completed
'88	United Artists Communications	United Cable TV	1.6	Pending
'87	Piedmont Aviation	US Air	1.59	Completed
'88	Hertz	Ford	1.30	Completed
'87	Norstar Bancorp	Fleet Financial	1.30	Completed
'87	Baker Int'l	Hughes Tool	1.20	Completed
'87	Overnight Transportation	Union Pacific	1.20	Completed
'87	AMC	Chrysler	1.18	Completed
'87	Collins & Aikman	Wickes	1.16	Completed
'87	Ranier Bancorp	Security Pacific	1.10	Completed
'87	Texas Commerce Bancshares	Chemical New York	1.10	Completed
'88	Public Service New Hampshire	New England Electric	1.00	Pending
'87	Southern Pacific Trans.	Rio Grande Industries	1.00	Pending
'87	Tri-Star Pictures	Coca-Cola	1.00	Completed

Leveraged buy-outs

Surge of new funds

EARLIER this month, Mr John Werner Kluge, a 74-year-old broadcasting mogul, announced he was backing a new $1bn fund to help take companies private in leveraged buy-outs.

The announcement was noted on Wall Street because Mr Kluge is probably America's second-richest man and he knows a lot about leveraged buy-outs: he bought out the other shareholders to the Metromedia broadcasting company four years ago and made $1.4bn in profits selling it off in pieces.

But the new fund was nothing special. Nowadays on Wall Street, it seems, scarcely a day goes past without a new leveraged buyout (lbo) fund. According to the best estimates, over $10bn of equity capital is now sloshing up and down Wall Street for buyouts. Since a typical deal involves only one-tenth as much equity as bank loans and subordinated debt, this is buying power of over $100bn: enough money to pick up the likes of Texaco many times over.

The lbo is the deal of the moment on Wall Street. According to Business Week, more than 1,550 companies have gone private since 1981, which is almost as many as the 1,666 listed on the New York Stock Exchange. The stock-market crash might simply not have occurred. This year has already brought boy-outs ot Montgomery Ward ($3.80bo), American Standard ($2.50bn), Duracell ($1.80bn), AFG ($883m) and Colt Industries ($660m).

"In the early 1980s, you really had to work at raising capital," says Mr Jerry Angullo, a principal at First Capital Partners, a new lbo partnership. "Now everything is in place: the senior lenders, the subordinated debt and the equity."

But the market is changing. Till recently, the biggest operators were large but highly specialised firms such as Kohlberg Kravis Roberts, which led the vast $6.2bn buy-out of Beatrice in 1985. But the largest pool of equity capital after KKR is at Morgan Stanley, the blue-chip investment bank, which bas raised $1.6bn from its own coffers and from institutional investors eager to get into the game.

Last summer, Morgan took Burlington Industries private to protect it from hostile takeover and the company has stakes in such diverse companies as Container Corporation of America, Colt and, until it was sold last month, Cain Chemical.

Other big Wall Street firms such as Merrill Lynch and Prudential-Bacbe are putting together pools almost as big. The new funds are the culmination of a historic shift of emphasis for Wall Street investmeot banks. Rather than providing advice and financing for a fee, they are increasingly risking their own capital in deals and ending with the sort of industrial holdings that would not shame a West German bank. "Merchant banking" is the buzz-word for this process.

A typical leveraged buy-out works like this: many mature companies in the US are relatively predictable and do not require a big cushion of equity – that is, the surplus of assets over liabilities that companies use as a protection against losses. Sometimes a banker identifies a low-risk business, which may be in such industries as food-processing or tyres or retailing, and joins with management in a recapitalisation. More often, the company is already the target of a hostile bid and management is desperately scouting around for a way of hanging on. Either way, the public shareholders are bought out with debt, usually a mixture of bank loans and junk bonds. The only equity is a tiny sliver provided by management and the lbo fund.

Running these companies is a hair-raising experience. Because the interest payments are so high, management has to struggle to cut costs and working capital. Reported losses are enormous. But if the debt can be serviced, the returns are spectacular.

The junk bond investors can reap 15 per cent a year (or more with equity warrants) while management and the equity investors can pull in anything from 40 per cent a year to 100 per cent.

Wall Street has been fortunate that the lbo movement has been attended by declining interest rates and, more recently, a cyclical upswing in manufacturing. Such deals as Metromedia, Beatrice and Cain Chemical have brought truly spectacular profits to the equity investors. Unsuccessful deals, such as the buy-out of Fruehauf, have been correspondingly rare.

Last autumn, the market got a taste of how risky a buy-out can be. Wheo the stock market crashed, it plunged the $4bn Southland deal into limbo. Two Wall Street firms, who had lent their own capital to finance the buy-out, suddenly found they could not sell the junk bonds to get themselves off the hook. Eventually, they succeeded but it was a scary few weeks.

Should a recessioo come, several leveraged companies will not be able to service their debt. Unfortunately, they could also find that they will not be able to refinance their junk bonds or raise equity either. At that point, Wall St. will wish it had stuck to its old business of giving advice and raising money for a fee.

James Buchan

Some of the biggest leveraged buyouts

• During 1987-88

Year	Company	Price $m	Status
87	Southland	4000.0	Completed
88	Mobil's Montgomery Ward Unit	3800.0	Pending
87	Borg Warner	3760.0	Completed
87	Owens-Illinois	3640.0	Completed
87	Viacom Int'l	3400.0	Completed
88	American Standard	2500.07	Pending
88	American Standard	2500.0	Pending
87	Jim Walter	2440.0	Completed
88	Allegis	2400.0	Pending
87	Burlington Industries	2160.0	Completed
87	Supermarkets General	2117.0	Completed
87	Lear Siegler	2100.0	Completed
87	HCA's 10 hospitals	1800.0	Completed
88	Kraft's Duracell Unit	1800.0	Completed
87	Taft	1450.0	Completed
87	Gaf	1340.0	Completed
87	Beatrice's Playtex Unit	1250.0	Completed
88	Stop 'n Shop	1200.0	Pending
87	Singer	1060.0	Pending
87	Beatrice's Int'l Food Group	985.0	Completed
87	Triangle Industries	976.0	Completed
87	Charter Medical	890.0	Completed
88	AFG	883.4	Pending
87	Heritage Communications	835.0	Completed
88	AMFAC	800.0	Pending
87	Revlon	794.0	Completed
88	Colt Industries	660.0	Pending
87	CBS' Magazine Unit	650.0	Completed
87	Joy Manufacturing	620.0	Pending

Whatever happened to the great Wall Street clean up?

A YEAR AGO, the Securities and Exchange Commission and criminal prosecutors seemed on the edge of a breakthrough in their investigation of the wave of hostile takeovers sweeping US business. Mr Ivan Boesky, the disgraced arbitrageur, was providing the sort of evidence of Wall Street malpractice that lawmen had not heard for 50 years.

Mr Gary Lynch, the SEC enforcement chief, and Mr Rudolph Giuliani, the US Attorney in lower Manhattan, were riding high. All over the securities industry, people were bracing for the inevitable result of their investigation: the indictment of Drexel Burnham Lambert and its chief junk-bond trader, Mr Michael Milken, for nothing short of a systematic conspiracy to destabilise US companies through junk-financed takeovers.

That was last year. Since then, Mr Boesky has begun serving three years amid the lawns and rolling hills of Lompoc, a minimum security prison in California. But Mr Milken continues to mastermind the $150bn junk bond market from his offices in Beverly Hills 100 miles away.

At a congressional hearing in April, Mr Milken invoked his constitutional right not to answer questions and he remains as enigmatic a figure as ever. Drexel Burnham, though it is avoiding hostile takeovers in apparent deference to the investigation, has ploughed back into the business of financing friendly deals.

One thing is clear. The SEC can bring civil charges of securities fraud against Mr Milken and his brash, aggressive and highly profitable firm. Drexel Burnham has accepted as much, though it says it knows nothing of any wrongdoing and complains bitterly that the case depends on the evidence of a convicted felon.

But the civil charges brought by the SEC are expected to be fairly modest – at least, in comparison with last year's grand conspiracy theories. Some lawyers feel that Drexel Burnham may be able to settle with the SEC, without admitting or denying guilt, promise not to break securities laws and pay a civil penalty.

As for criminal charges, insider trading is notoriously hard to prove in court. The same lawyers have doubts that Mr Giuliani and his chief investigator, Mr Bruce Baird, have strong enough evidence to convince a jury in a criminal case.

It is known that Boesky told

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Rise of the financial boutiques

High-powered specialists

IN the United States today it seems that remarkable gaps exist between companies and their institutional shareholders. Amazing profits are made by operators who exploit the failure of the market to price companies adequately or, looking at it the other way around, the inability or unwillingness of managers to run the businesses in a way which maximises value for investors.

The latest phenomenon in this area is the rise of the financial boutiques — small, high-powered firms which aim to deliver specialised expertise through contacts at top level.

Earlier waves of corporate raiders and arbitrageurs are now largely discredited, and some (though by no means all of the) big investment banks are struggling with organisational conflicts and allegations of insider dealing by key executives.

Peter Peterson, who once headed the top investment bank Lehman Brothers, ahead of its takeover by the American Express group, says that the leading Wall Street firms became so large there was a tendency to overlook the need to build and maintain close and long-term relationships.

"The bond of confidentiality and trust was rapidly eroding," he suggests. Today he is chairman of The Blackstone Group, a boutique which has advised on some highly profitable deals, including the Sony acquisition of CBS Records, the Shearson Lehman purchase of E.F.Hutton and the Bridgestone acquisition of Firestone.

The boutiques differ in objectives. Some are corporate finance specialists, others are focused on the still-booming leveraged buy-out market and yet others are simply smart investors with an eye for a special situation.

One reason for their existence relates to personalities rather than market opportunities: there is a steady trickle of top people leaving the big investment banks, often because of internal upheavals.

The departure of the top merger and acquisition specialists Bruce Wasserstein and Joe Perella from First Boston in February this year hit the headlines: they have established Wasserstein, Perella and Co. David Stockman, a former US Budget Director, has left Salomon Bros to join Blackstone.

Paul Volcker, until last August chairman of the Federal Reserve Board, spurned offers from top investment banks in favour of the chairmanship of another corporate finance minnow, James D. Wolfensohn Inc, which he joined in March.

Leon Levy and Jack Nash, formerly leading partners in Oppenheimer, departed from that investment bank several years ago after the takeover by Mercantile House. They have subsequently generated huge profits in their tiny investment vehicle called Odyssey Partners.

According to one director of a boutique, who left a leading investment bank to join the firm, growth in the leading organisations has generated problems.

"When we came into investment banking in the mid-1970s we were not organisational people, we were individualistic," he suggests, declining to be quoted by name.

During the rapid growth period of the early 1980s the personal ambitions of the leading contenders could be handled, he argues. "But now the industry is maturing and the firms are breaking up."

The big investment banks deny, however, that their growing size has generated conflicts for them. According to Eric Gleacher, head of M and A at Morgan Stanley: "We don't have a problem. We have only lost three people in the past four years. I don't think it's a reason for the creation of boutiques."

Whatever the motivation for forming the boutiques, skills and contacts are not enough on their own. A crucial ingredient in the growth of many of these boutiques has been the availability of large amounts of capital from a wide circle of investment institutions. Altogether the various investment banking boutiques are reckoned to have put together some $12bn to finance takeovers, buyouts and restructurings.

Despite last year's crash the record of most investment bankers in squeezing unsuspected value out of companies through M and A deals has been extraordinary.

Even leveraged buyouts have a good track record, despite the higher and higher prices at which the deals are being done. But there are fears that many of the deals could not stand up to a serious US economic recession.

Some boutiques nevertheless expect to do well even in tough economic conditions. Peter Peterson, a former Secretary of Commerce in the Nixon Administration, warned in a magazine article last year that the day of reckoning was at hand for the US economy.

Now, The Blackstone Group sees one of its potential roles as providing advice and finance for companies that get into trouble and need restructuring and off balance sheet finance, including over-leveraged LBOs. There could be plenty of demand if the US economy heads into a recession next year.

Barry Riley

A rising level of merger mania

Continued from page 4

The great sign attitudes have changed came this spring when General Electric and Eastman Kodak gave up their long-held aversion to making such offers. They stepped into bitterly contested battles to win control respectively of Roper, a kitchen appliance maker, and Sterling Drug.

The crash has had little impact on the prices corporations and raiders are willing to pay. Although stock prices are down some 25 per cent from their 1987 peak, buyers are paying a premium of 50 to 60 per cent over pre-bid prices to win control compared with an average premium of 38 per cent last year, according to Clayton Dubilier, a leveraged buyout specialist.

To some extent the statistics have been skewed by special cases such as the purchase of Firestone Tire & Rubber by Bridgestone, its Japanese competitor. The US company went for $80 a share, after a counter-bid from Pirelli of Italy, compared with a market price of $33 before the first offer.

Likewise among other big deals this spring American Standard did a buyout at $78 against $36, Campeau bought Federated Department Stores for $73 against $37 and Kodak bought Sterling for $89.50 against $54.

Foreign investors continue to be among the main players with the British outstripping other nationalities. They spent $25bn last year on acquisitions compared with the second-placed Dutch with $3.9bn.

The Japanese, who are rapidly developing a taste for such business, were placed only seventh last year with $894m, but are racing ahead this year with Firestone, Sony's purchase of CBS Records and other big transactions.

From a US point of view, some of the price foreigners are paying look exorbitant. But the deals look better bargains from countries with high-valued currencies and different accounting rules.

Two additional factors driving the M & A business are the availability of finance and the "deal-begets-deal" syndrome. Morgan Stanley estimates that some $90bn of equity capital is available in the US to fund M & A activities. Debt leverages the money at least 10-fold so the pool is deep and wide.

The multiplier effect of M & A is most vividly shown by the case of Campeau's purchase of Allied Stores at the beginning of 1987. The Canadian real estate company has sold off 16 of Allied's 24 divisions to reduce debt and to concentrate on core businesses. Campeau has already begun applying the same technique to Federated Department Stores which it won this spring.

Booming takeover activity has been just as good a chunk of business for law firms than investment bankers. Target corporations' legal defences have become more complex in recent years thanks to a plethora of state laws designed to help management of local companies retain their independence. Since the US Supreme Court let stand Indiana's law in 1987, some 30 states have passed their own versions.

Delaware's is one of the most notorious, if only because so many major companies have long been registered in the state because of its favourable corporate laws.

In theory, Delaware's new version, passed early this year, is designed not to prevent takeovers but to ensure the offer is fair to all shareholders and noncoercive. It demands, for example, that an investor purchases a minimum of 80 per cent of a company's stock before completing a merger against its management's wishes. Furthermore, the law could stall a deal for three years if the management was opposed.

In reality, it has meant hours of tedious court room hearings for bidders and defenders.

One of the most tortuous recent cases involved Koppers, a Pittsburgh-based, Delaware-registered building materials company hotly pursued by Beazer of the UK. With dogged perseverance through three months of court appearances Beazer eroded each of Koppers's defences until it finally succumb to a takeover.

The Securities and Exchange Commission and various other agencies are determined, nonetheless, to get the laws struck down. The SEC delivered a brief in the Koppers case arguing that the Delaware law unfairly impeded the normal takeover process. Koppers use of the law was upheld but further challenges of the statute is expected.

Initial euphoria over the apparent strength of the state statutes is reminiscent of that surrounding poison pill shareholder rights plans. When the pills were devised in 1983, it seemed that the sales of huge preferred shares to stockholders at favourable rates in the event of a hostile bid would make takeovers prohibitively expensive.

In reality it is hard to find a case where the pills were anything more than a delaying tactic. Of the first four companies to instal poison pills five years ago, Bell and Howell became this year the last to fall to a raider.

Shareholder activities, particularly public sector pension funds, are sponsoring an ever-growing number of annual meeting resolutions to seek the overthrow of poison pills. None have passed so far but shareholder support is rising.

All this may be beside the point, however. A University of Rochester study concluded that in four out of five cases where dissident shareholders lost their initial fight against managements, the boards either conceded later or the companies were sold.

The mergers and acquisitions sector already employs some 50,000 people in New York commercial and investment banks and law firms, a five-fold increase in five years, estimates Mr Perrin Long of Lipper Analytical.

M & A services generated about $1bn in pre-tax profits last year, or about one-third of Wall Street's total. With no sure defences for target companies and growing appetite to buy rather than build businesses, Wall Street is banking on further growth of the sector.

Roderick Oram

Foreign portfolio investment

Hopes are rising

THE Japanese poised to spend heavily on US equities? That is what many Wall Street dealers hope, as the US stock market regains a little more of its lost confidence, and hopes increase that the three-year decline of the dollar may have come to an end.

According to Hideo Karino, general manager of Nikko Securities' foreign stock trading division, some 70 per cent of the money allocated by Japanese institutions for foreign investment has been earmarked for the US.

"Japanese investors are planning to increase their proportion of US equities year by year," he claims.

But in the past couple of years the Japanese institutions have severely hurnt their fingers on US Treasury bonds. Attracted by high yields the Japanese bought some $50bn net of bonds in 1986 but lost heavily on the dollar-yen exchange rate. So, last year the central banks had to pick np the main responsibility for financial the US external deficit, although Japanese interest in equity purchases increased somewhat.

Recently, according to Mr Karino, it has been a question of wait-and-see. Japanese investors were unnerved by the negative reaction of the US stock market to the news of the trade deficit in April. But recently the market's trend has been more encouraging.

The Japanese are crucial because they are the investors with the big money. Other more traditional foreign investors in US securities, such as the British or the Swiss, are not really any longer in the same league.

For all foreign investors last October's crash came as a tremendous shock, and led to a rush to repatriate funds during the final quarter of last year. After net pnrchases of US equities totalling $18.7bn in 1986, the net figure was heading at one stage for $30bn in 1987 but after the late outflow – when nearly $10bn was repatriated in the final two months of the year – the annual total finished at only $16bn.

Within this aggregate, Asian interest was notable. Principally reflecting Japanese buying, Asian net purchases of US equities jumped from $4.9bn in 1986 to $11.5bn in 1987. The reverse side of that coin was a slump in European purchases, with the UK picking up only around $0.5bn net, down from nearly $5bn in 1986. Swiss investors sold $1.2bn worth net, a total downswing of some $3bn from the 1986 position.

The picture for 1988 is not yet clear, and although it appears that the wave of selling dried up by January, buying was subdued too. Activity levels generally have been low, and investors have been waiting on the sidelines.

Meanwhile, however, foreign representation within the infrastructure of the US securities industry has been rapidly increasing. The Securities Industry Association reckons that some 40 of its members are now foreign-owned.

In the Government bond market four primary dealers are now Japanese, reflecting the heavy Japanese commitment to the Treasury bond-market whatever the recent currency setbacks. Nikko was the most recent to be granted primary dealer status, following two other securities bouses, Nomura and Daiwa, while the Industrial Bank of Japan joined the list when it bougbt an existing primary dealer, Aubrey G. Lanston.

The SIA estimates that foreign investors account for 9 per cent of the trading in US Treasuries (and there are active time zone markets in Tokyo and London). However, large net investment by private sector investors has been replaced in the past two years by an emphasis on official institutions as foreign Governments have sought to prop up the dollar.

In 1987, official net purchases were $31.2bn while private institutions were actually net sellers to the extent of $5.3bn.

In equities, foreign activity on the New York Stock Exchange reached a record 13 per cent of publicly traded volume last year, with the UK and Japan jointly leading the way, but Japan on a much stronger uptrend.

Barry Riley

A selection of foreign takeovers of U.S. companies

Target	Bidder	Country	Price $m	Year
Standard Oil (remaining 45%)	British Petroleum	U.K.	7700.0	87
Federated Department Stores	Campeau	Canada	6640.0	88
Farmers Group (a)	BAT Industries	U.K.	4200.0	1/88
Allied Stores	Campeau	Canada	3600.0	87
Chesebrough-Ponds	Unilever	Netherlands	3100.0	87
Celanese	Hoechst	West Germany	2867.0	87
CBS Records	Sony	Japan	2000.0	87
Firestone Tire & Rubber	Pirelli	Italy	1860.0	2/88
Kidde	Hanson	U.K.	1700.0	87
Staley Continental	Tate & Lyle	U.K.	1480.0	88
Allegis' Westin Hotels	RM Bass/Aoki	US/Japan	1350.0	87
Manpower	Blue Arrow	U.K.	1300.0	87
Heileman Brewing	Bond Corp Holdings	Australia	1260.0	87
Texaco's W. German Unit	Rheinisch-Westfaelisches Elek	W. Germany	1230.0	88
RJ Reynold's Heublein	Grand Metropolitan	U.K.	1200.0	87
Tropicana	Seagram	Canada	1200.0	88
Irving Trust (a)	Banca Commerciale Italiana	Italy	1100.0	88
Allegis' Hilton Int'l	Ladbroke	U.K.	1070.0	87
Safeway Stores' U.K. Division	Argyll Group	U.K.	1040.0	87
Firestone (75% Tire Unit)	Bridgestone	Japan	1000.0	88
Telex	Memorex	U.K.	911.0	87
First Jersey National	National Westminster	U.K.	820.0	87
First Jersey Securities	National Westminster	U.K.	820.0	87
Brooks Brothers	Marks & Spencer	U.K.	770.0	88
Marine Midland	Hong Kong Shanghai	U.K.	758.0	87
Union Bank California	Bank of Tokyo (from Stnd. Chartered)	Japan	750.0	88
ADT	Hawley Group	U.K.	715.0	87
Gencorp's Tire Subsidiary	Continental	West Germany	650.0	87
A.H. Robins	Sanofi	France	600.0	88
CPC's European Starch Interest	Ferruzzi	Italy	600.0	87
Rent-A-Center	Thorn-EMI	U.K.	593.6	87
153 Holiday Inns	Bass PLC	U.K.	575.0	87
Revlon's Vision Care	Pilkington	U.K.	574.0	87
JWT	WPP Group	U.K.	566.0	87
Reichhold Chemicals	Dainippon Ink	Japan	540.0	87
St. Paul Companies	Minet Holdings	U.K.	515.0	87
Fluor's St. Joe Gold	Dallhold Investments pty	Australian	500.0	87

(a) Pending
Source: Rivka Nachoms, FT New York

Foreign takeover deals

UK buyers set the pace

AMERICA is for sale. With an external deficit of the order of $150bn to cover, a figure which is unlikely to fall very fast, sales of US companies and real estate to foreigners are becoming a significant element in the overall financing picture – especially as foreign investors have become sated with US Treasury bonds.

Although foreign purchases of companies dipped in 1985, when the dollar was high, they have since picked up to a rate of around $25bn a year. In the first quarter of 1988 overseas companies executed 114 acquisitions worth $8.7bn, according to Mergers & Acquisitions magazine.

In fact, foreigners are involved in something like a quarter of all the takeover deals which take place in the US. No wonder the major investment banks have been placing great emphasis in the past few years in building up their international connections.

"There's a tremendous interlock of business between London, New York and Tokyo," says Eric Gleacher, head of mergers and acquisitions at Morgan Stanley. He reckons that 30 per cent of his firm's deals involve at least one non-US company.

In 10-12 per cent of cases, foreign companies are on both sides of the transaction.

Over the past decade the UK has been the most eager foreign country to purchase American corporate assets, accounting for some 600 out of 1900 substantial deals in that time.

Neighbouring Canada has been second with 450 or so. West Germany with 150 and France with 100 have trailed a long way behind. Then there has been Japan with no more than about 80.

The big challenge for the US investment banks in the past few years has in fact been to awaken the latent demand in Japan. With the yen soaring Japanese companies have become very rich. But takeovers have never been part of the corporate culture in Japan, and Japanese companies have certainly not been keen to get involved in the rough-and-tumble of contested US takeovers.

Agreed deals are another matter, however, and the pace of Japanese activity has been rising rapidly, highlighted by such deals as the Sony takeover of the records side of CBS for $2bn.

"The Japanese are very strategic buyers," says Peter Peterson, chairman of The Blackstone Group, a corporate finance boutique which acted for Sony in the CBS deal.

"They are less pre-occupied with short-term questions and price. They want quiet transactions and friendly transactions and business-oriented transactions that make long-term sense."

So far, many Japanese companies have felt happier at starting up greenfield operations in the US rather than taking over existing businesses. But with several major transactions being done by pioneering companies, including the tyre industry deal between Bridgestone and Firestone, other big Japanese groups could well follow along behind – "Japan is awakening," says Mr Gleacher of Morgan Stanley.

The pace of foreign acquisitions could well quicken generally, as overseas buyers seek to take advantage of favourable exchange rates. A lower level of the dollar naturally encourages buyers, but on the other hand they may fear the effects of a further decline in the US currency. The peak level of transactions is therefore likely to be seen after the dollar is generally perceived to have bottomed.

Rising levels of foreign takeovers are now producing a degree of political resistance, however. The Reagan administration has adopted a free market approach, but a Dukakis victory in November would almost certainly signal a more restrictive attitude, and a Bush administration might not be very different.

American M and A practitioners are therefore likely to be telling foreign companies that the remainder of this year could amount to something of a window for them to complete strategic US corporate deals if the foreign clients accept the argument, a busy six months could lie ahead.

Barry Riley

Changes in banking legislation

A long, slow process

SINCE November, when the two leading members of the influential Senate Banking Committee unveiled a bill to repeal the 1933 Glass-Steagall Act separating commercial and investment banking, the proposals have crawled through the labyrinthine legislative processes of Congress with no result.

There have been some notable victories along the route so far but the impact of these so far has been blunted by political turf battles and a degree of deliberate time-wasting.

The odds for enactment of some form of legislation before Congress breaks up in November for the Presidential elections seem very slim indeed. The word in Washington is that the House Banking Committee, which is supposed to be drawing up its own proposals on reform on Glass Steagall, has hardly made any progress at all.

Meanwhile, banks continue to erode the barriers set up by Glass-Steagall, helped by the aggressive support of major regulators such as the US Federal Reserve and the Comptroller of the Currency.

On June 13, the US Supreme Court announced that it would not hear a case brought by the Securities Industry Association, the lobby group, to overturn powers granted last year by the US Federal Reserve to seven leading commercial banks to underwrite commercial paper, mortgage-backed securities and revenue bonds.

That landmark decision brought to an end a long legal battle by the SIA to stave off expanded bank powers and the seven banks conerned – Chase Manhattan, J P Morgan, Citicorp, Chase Manhattan, Bankers Trust, Manufacturers Hanover and Security Pacific – said they would become active in these areas immediately.

These banks had been geared up to enter these areas of securities underwriting since mid-last year when the Fed approved the new powers. However, banks were prevented from actually starting this new business by a moratorium imposed by Congress which expired in March this year and then by a court injunction while the SIA appealed first to the Federal Court and then to the Supreme Court.

Banks were understandably pleased to have got the limited new powers approved by the Fed. However, they are all too aware

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Insider trading is hard to prove

Continued from page 5

the investigation that he was involved in an illegal arrangement with Mr Milken to disguise the ownership of stock gathered for the purpose of a hostile takeover. Investigators have concentrated on a $5.3m payment made hy Boesky to Drexel Burnham in 1986, apparently as a fee for these "stock-parking" arrangements. Drexel Burnham denies this and says the fee was for legitimate consulting services.

A similar "parking" scheme is under investigation at Jamie Securities, an arbitrage firm rm hy Mr John Mulheren. Mr Mulheren was arrested outside his New Jersey home with a loaded gun in February and charged with threatening to kill Boesky. Documents filed in court in Washington also allege that Mr Paul Bilzerian, a second-tier takeover specialist, and Mr Edward DeBartolo, a well-known shopping-mall developer, were involved in stock-parking schemes in hostile raids on Hammermill, the paper company, and Carter Hawley Hale, the California retailer, among others.

But in the absence of more compelling evidence of alleged villainy, stock parking remains a fairly technical infringement of securities laws. Lawyers douht that it would form a sound basis for a criminal prosecution.

Meanwhile, Mr Giuliani's investigators appear to be making no progress in its other big securities case. Last May, the high-flying team suffered a serious setback when it had to withdraw indictments against three arbitrageurs.

The three men, who include a partner at Goldman Sachs, were arrested in broad daylight on the evidence of a Boesky cohort, Mr Martin Siegel. A year later, Mr Giuliani and Mr Baird still have to produce indictments.

James Buchan

Intensive search for undervalued stocks

Boost for smaller exchanges

THROUGHOUT the 1980s' bull market in equities, when voracious investors sunk thousands of dollars into high profile blue chips traded on the New York Stock Exchange, secondary stocks traded on the smaller exchanges were a dull prospect indeed.

From 1983 on, over-the-counter stocks generally under-performed while the likes of International Business Machines and American Telephone & Telegraph soared. However highly leveraged a company was and however high its price/earnings ratios, the share values of headline, blue chips simply went on rising.

That all changed during the crash. A study by two finance professors at the University of Cornell shows that the top 20 per cent of shares which rose between 57.4 per cent and 371.5 per cent in the 12 months before the crash fell by an average of 32.8 per cent between October 1 and October 19.

The bottom quintile of stocks, which fell by between 77.8 per cent and 3.6 per cent in the year before the crash, fell by 24 per cent.

The authors conclude that investors reverted from an irrational and indiscriminate belief in ever-higher share values to fundamental valuation of companies even during the most chaotic days of the crash.

One of the most pervasive investment trends during the 1980s bull market was towards indexation. The top 200 pension funds and investment institutions in the US have a total of about $200bn in indexed funds. These are based on the belief that the major market indices generally outperform money managers who pick stocks and are basically designed to track as closely as possible the constituents of, say, the Dow Jones Industrial Average.

Since the stock market crisis in October, the art of stock picking on the basis of old-fashioned valuation tools such as price/earnings ratios, cash flow and debt has revived. Money managers who specialise in stock picking have been regularly outperforming the major market indices.

The top money manager of the first quarter was Brean Murray Foster Securities which uses a range of fundamental value techniques. Its institutional fund gained 27.4 per cent in the first three months of this year compared with a rise of 0.8 per cent in the Standard & Poors 500.

Other success stories since the crash have been the performance of funds based, for example, only on stocks with small capitalisations or the very lowest p/e ratios.

This return to a notion of fair value – put another way, an intensive search for undervalued stocks – *should* benefit the smaller exchanges where many of these neglected bargains are probably traded.

In the few months after the crash, there was some evidence of this with secondary stocks generally outperforming high profile blue chip issues traded on the New York Stock Exchange, a typical characteristic of a bear market.

For example, over-the-counter stocks rose 14 per cent in the first three months of this year compared with a 7.3 per cent rise in the Dow Jones Industrial Average.

Smaller stocks still face problems. The most troublesome factor has been the reluctance of individual investors to return to equity markets, preferring to keep their money in cash or alternative investments such as bonds, real estate, limited partnerships or even fine art.

Volume on the NASDAQ over-the-counter market slumped to a daily average of 117.5m in May compared with an average throughout 1987 of 149.8m.

This lack of investor participation means that the market in some of the smaller OTC stocks has become even less liquid than before, a factor which tends to favour larger capitalisation issues.

In addition, cost cutting at securities firms has led to less jobs for securities analysts which means that some small companies are not tracked at all anymore. On the NASDAQ, too, the number of market making positions has declined, another factor making the market less liquid.

Janet Bush

Corporate Stock Issuances ($ Billions)

Year	Non-financial	Financial	Net issuance
1981	−18.8	−4.9	−23.5
1982	−12.7	−7.6	−20.3
1983	24.0	1.7	25.6
1984	82.4	0.7	−81.7
1985	72.7	11.3	−61.4
1986	86.4	21.5	−64.9
1987 est.	−64.1	12.0	−52.1

Domestic Corporate Bond Issuance ($ Billions)

Year	Net domestic issuance
1982	53.8
1983	49.7
1984	92.0
1985	114.7
1986	110.8
1987 est.	106.2

Junk Bond Issues

Year	# New issues	Total value ($m)
1980	46	1,379.5
1981	37	1,279.6
1982	56	2,496.0
1983	98	7,534.4
1984	133	14,111.3
1985	182	14,754.1
1986	226	32,399.6
1987	191	31,132.6
Through 6/7/1988	42	6,702.5

Source: IDD Information Services

Brief recovery for insurance sector

THE US property/casualty insurance industry has just enjoyed its strongest-ever recovery. It was also the briefest ever. The industry, which was banking on good demand and rising premium rates this year and next to rebuild the ravages of the mid-1980s, now recognises that *last* year was the peak.

A new cycle of falling property/casualty premium rates and rising losses is not the only thing worrying the industry. Nobody can even guess the extent of losses the industry faces on liability cover it wrote in a less litigious world for risks ranging from asbestosis to toxic waste.

Meanwhile, the industry faces an unprecedented challenge to its freedom of action through a bevy of state anti-trust lawsuits arising out of the "liability crisis" of the mid-1980s.

The lawsuits, which allege that the US industry conspired with Lloyds of London to raise premiums and cut cover on liability insurance for towns and businesses, seek to re-order the way insurance companies do business in the US. The states are seeking a repeal of the exemption from anti-trust laws that allows companies to pool price and loss information.

Not surprisingly, insurance stocks are some of the least popular on Wall Street, right down there with money-centre banks, savings and loan institutions and automobile companies.

According to Mr Herbert Goodfriend, a well-regarded insurance analyst at Prudential-Bache on Wall Street, the pure property/casualty companies such as Chubb, Continental and Fireman's Fund are priced in the stock market at only 8 times his estimate for their average earnings for 1988. The composite or multiline companies such as Aetna and Cigna, which are also losing money on group health operations because of a new surge in health care costs, sell for only seven times their 1988 profits.

The property/casualty industry in the US has always been cyclical. When profits are good, there is a rush to get into the business and companies cut prices to gain market share.

Soon, premium rates fall too low to cover claims and expenses. The extra capacity is driven out, rates are increased and profits are gradually restored until the whole underwriting cycle begins again.

The cycle duly hit bottom in 1984-85 and there was a spate of insolvencies, culminating in the liquidation of Mission Insurance. Some insurance companies were losing so much money that they effectively gave up writing the most risky kinds of liability business. This sharp reduction in cover caused ski-lifts, tramways and kindergartens to close all over the US, caused bad feeling in many city and state governments and culminated in the massive anti-trust lawsuits last April.

But rates did improve, notably in the least regulated commercial lines where competition had been most intense. The industry, which had lost $24.6bn from insurance underwriting in 1985, enjoyed statutory operating profits including income from investing premiums of $13.7bn in 1987. By the first quarter of this year, the key ratio of losses and expenses to premiums was little over 102: that is, the industry was almost underwriting at a profit.

The industry will not see this ratio again for some time. The rate of premium increases peaked as long ago as last June, and some insurers have cut prices up to 40 per cent in some commercial lines. Industry profits are now expected to decline at least 5 per cent next year.

James Buchan

Banking legislation

Continued from page 6

that these parts of underwriting are not particularly profitable and will continue to push hard for the ability to underwrite mutual funds and corporate debt and equity issues.

The benchmark for discussions in Congress on Glass Steagall is the bill introduced by the Senate Banking Committee and passed in the Senate on April 2 with a resounding 94 to 2 majority.

After intense negotiations within the Senate Banking Committee, a compromise on Senator Proxmire's original proposals was reached, providing for a stepped approach to total repeal of Glass Steagall.

The Proxmire bill would give banks immediate authority to underwrite commercial paper, municipal revenue bonds, mortgage-backed securities and securities backed by other assets, now pre-empted by the Supreme Court decision although banks would still like these powers written into the law.

Six months after enactment of the legislation, banks would be allowed to underwrite mutual funds and corporate bonds and the power to underwrite corporate equities would be subject to an expedited vote in Congress in 1991.

The Proxmire bill has the backing of most of the major regulators, including the US Federal Reserve and the Securities & Exchange Commission, and the US Treasury. It has also won widespread support from banks, which stand to gain substantial new powers, and the insurance and real estate industries whose powers have largely been left protected from encroachment by commercial banks.

The securities industry is, inevitably, lukewarm about the proposals but also stands to gain some banking powers under this bill which softens the blow.

The next staging post in the bill's progress through Congress is the House Banking Committee which is yet to come up with agreed alternative proposals.

Representative Fernand St Germain, chairman of the committee, earlier this year published a committee print which would have given banks fewer powers than the Proxmire bill and which would also have imposed much stricter "firewalls" or structural barriers to prevent conflicts of interest between a bank's traditional banking business and new securities powers.

These proposals met with very little support in the House Banking Committee and alternative proposals modelled on the Proxmire bill attracted a majority of votes on the committee. This prompted Mr St Germain's staff to go back to the drawing board and bash out an alternative bill.

Congressional aides expect that new proposals will be ready to be marked up for a reading in the committee by early July. It seems that the new proposals being worked out will be quite close to the Proxmire bill but with perhaps fewer securities powers.

The new proposals would then have to be passed in the House Banking Committee. At that stage, the Senate and House would go into a conference to agree on one piece of legislation which would then have to be voted on and passed by both houses.

As if this tortuous process was not enough, there is also a possibility that the House Energy and Commerce Committee may want a say in the shape of any final bill.

Both the House Banking and House Energy and Commerce committees are politically close to the securities industry and have been heavily lobbied by Wall Street to reject sweeping repeal of Glass Steagall. Supporters of the Proxmire bill believe that the lengthy negotiations within the House Banking Committee represent deliberate delaying tactics to make sure there is no legislation this year.

This delay may, however, backfire on the securities lobby whose defences against the encroachment on their business by banks have already been eroded by the series of court decisions which have all run against them.

Janet Bush

Business on Wall Street

Painful adjustments

TO WALL STREET firms struggling to make money in atrophied markets, the optimists' view of last October's crash is an expensive had joke. The sudden collapse of stock prices, went the theory, would allow investors to get back to serious business more quickly than would a lingering correction.

In reality, business remains had aight months later. Wall Streeters talk not of an imminent revival of fortunes but of further painful adjustments. Securities brokers are humping along, barely profitable at best, on shrunken volumes. Investment bankers are booking humper fees as merger mania continues a pace hut they are suffering from a dearth of underwritings.

Worse, last autumn's slashing cuts in overheads proved too little, too late. For most firms, revenues are falling faster than expenses, a trend which will inevitahly force soon many of them to jettison more staff and lines of business.

As the pie shrinks, people are fighting harder for their slice. Several of the most prestigious firms have been wracked by internal dissent. The classic split is between investment bankers who continue to make money and securities traders who do not. The battles have raised the ghost of Lehman Brother Kuen Loeb which, irreparably damaged by such an internal war, succumbed to a takeover by Shearson four years ago.

The immediate impact of the crash bad been bad enough. Publicly quoted Wall Street firms lost some $300m in the fourth quarter of last year. For public and private companies combined the losses totalled about $500m, according to estimates by Mr Samuel Liss, a Salomon Brothers analyat. Only Morgan Stanley bucked the trend, reporting a 15 per cent rise In net profits to $230.9m.

The return on equity of members of the New York Stock Exchange fell to about 5 per cent last year from around 16 per cent in the previous two years and 19 per cent in 1983. Of the heydays of the mid-1980s, 1984 stands ont as a warning about the industry's difficult times today. Then as now, retail brokerage activity dried up leaving firms with a deeply disappointing 4 per cent return.

The 1984 plunge coincided with a period of rapid expansion in debt and equity capital by the firms, typically by 150 or 200 per cent over the three years to 1987. The capital handsomely earned its keep when husiness was hooming hnt now firms are straining to put it to good use.

"Utilisation of capital at acceptable levels of return," wrote Mr Liss in a recent report, "has become a meaningful challenge in 1988." Perhaps the firms would be better off returning some of the capital to shareholders. "During a cyclical downturn, a share repurchase for well-capitalised brokerage firms can make good financial sense."

The revenue picture is grim. The decline in the first quarter of this year was between 20 and 30 per cent from year earlier levels for most firms. Only Shearson Lehman Hutton produced a sizeable gain thanks to the takeover of Hutton at the turn of the year. Uniformly the worst area was commissions, particualry from both retail and institutional clients. A patchy performance was apparent, however, in investment banking and principal transactions with some firms showing good growth and others miserable shrinkage.

Overall in the first quarter new corporate debt and equity underwritings were down 22 per cent to $68.3bn from $87.4bn a year earlier, according to IDD Information Services. Investment banking fees from these new issnes declined by about $430m, according to Securities Data.

The worry is growing on Wall Street that some firms, or more disturbingly a few inadequately supervised personnel, will succumb to the temptation to try to make money on more wreckless principal transactions. Merrill Lynch and First Boston suffered in this way last year in the bond markets and others are just as vulnerable now.

Overheads are in even worse shape. In March, 1987, as the bull market was having its last great fling, expenses of major firms averaged 81.3 per cent of their revenues. This March, despite painful cost cutting, expenses had risen to an average of 87.5 per cent of revenues. Worst off was Merrill Lynch with a figure of 105 per cent and hest was Quick & Reilly, a leading discount broker, with 66.5 per cent, according to figures compiled by Mr Larry Eckenfelder, who analyses Wall Street firms for Prudential- Bache.

In the first few months after the crash, Wall Street fired between 10,000 and 15,000 people, cutting current financial service employment in New York City to about 160,000. A recent New York University study estimated a further 18,000 people will lose their jobs during the rest of this year.

Several firms, hit by losses, have been swallowed up by competitors. The largest was E.F. Hutton which was taken over by Shearson Lehman at the turn of the year after it had lost an estimated $120m-$150m in the fourth quarter. The merger made the firm the largest on Wall Street by several measures. Total debt and equity capital of its broker-dealer operations was $5.5bn at the end of 1987, compared with second place Salomon Brothers with $3.3bn, Goldman Sachs with $3.1bn and Merrill Lynch with $3bn.

Merrill Lynch remained top in revenues, however, with $1.4bn in the first quarter ended March compared with Shearson's $1.38bn.

First Boston has the most spectacular internal fights but it appears to be rebuilding itself. A deep and angry divide was opened by its investment bankers who wanted the firm to sharply curtail its securities trading. They argued the capital would be more profitably deployed in mergers and acquisitions.

When an internal review concluded the firm should remain a full service business, Mr Bruce Wasserstein and Mr Joseph Perella, its star co-heads of investment banking, left to form their own firm, taking many First Boston colleagues with them.

First Boston, with one of the largest mergers and acquistion teams on Wall Street, apparently has enough depth of talent to continue to be a major player. Though great fun for the gossip mongers, the ructions highlighted the vulnerability of Wall Street firms to debilitating internal strife borne of intense personal competitiveness.

Roderick Oram

Top U.S. Brokers

• Ranked by capital ($m), 1987

Company	Total Broker Dealer Capital	Equity Capital	Subordinated Debt	# of RR's
Shearson Lehman Brothers (a)	4,071.2	2,136.5	1,934.7	5,500
Salomon Brothers	3,133.2	2,029.1	1,104.1	1,021
Merrill Lynch	2,903.8	2,103.8	800.0	12,000
Goldman Sachs	2,402.0(b)	1,656.0	746.0	1,886
Drexel Burnham Lambert	1,740.0	1,218.0	522.0	2,800
Dean Witter Reynolds	1,344.0	761.0	583.0	7,551
Paine Webber	1,321.0	821.0	500.0	4,342
Bear, Stearns	1,320.5	934.0	386.5	2,106
Prudential-Bache	1,263.6	953.0	310.6	6,098
First Boston	1,183.8	730.8	453.0	1,800
E.F. Hutton (a)	1,114.0	661.0	453.0	6,429
Morgan Stanley	1,096.8	696.8	400.0	1,500

(a) now Shearson Lehman Hutton
(b) as of 11/27/87.

Leading managers of underwritten offerings

Manager	First quarter, 1988 Amount, $bn	First quarter, 1988 Market share %	First quarter, 1987 Amount $bn	First quarter, 1987 Market share %
• U.S. CORPORATE OFFERINGS:				
Merrill Lynch Capital Markets	11.7	17.2	11.4	12.7
Salomon Brothers	9.8	14.4	13.4	15
Goldman Sachs	8.4	12.3	9.5	10.7
First Boston	7.6	11.1	12.7	14.2
Morgan Stanley	7.1	10.4	8.5	9.5
• CORPORATE DEBT OFFERINGS:				
Merrill Lynch Capital Markets	8.8	16.8	8.7	11.9
Salomon Brothers	8.3	16.0	12.9	17.5
Goldman Sachs	7.8	13.5	7.4	10.1
First Boston	6.9	12.0	11.9	16.3
Morgan Stanley	6.9	12.0	7.4	10.1
• MUNICIPAL OFFERINGS:				
Smith Barney, Harris Upham	2.6	10.7	3.5	10.9
Merrill Lynch Capital Markets	2.5	10.2	2.8	8.7
Shearson Lehman Hutton	2.3	9.4	2.0	6.4
Goldman Sachs	2.0	8.2	2.1	6.6
First Boston	1.9	7.7	1.0	3.0

Top Financial Advisers

• Ranked by amount of transactions, 1987

Adviser	Amount ($m)	As % of to	No of Deals	% of Deals
Goldman Sachs	63,465.0	29.3	134	3.8
First Boston	55,091.8	25.4	174	5.0
Morgan Stanley	42,336.3	19.5	120	3.4
Merrill Lynch	34,324.5	15.8	101	2.9
Shearson Lehman Brothers	25,631.7	11.8	164	4.7
Lazard Freres	24,251.5	11.2	44	1.3
Drexel Burnham Lambert	22,706.5	10.5	126	3.8
Salomon Brothers	21,859.7	10.1	76	2.2
Kidder Peabody	13,518.9	8.2	70	2.0
Dillon Read	11,167.8	5.2	42	1.2
TOP ACQUIROR ADVISERS				
Goldman Sachs	23,725.7	10.9	30	0.9
Morgan Stanley	23,494.4	10.8	54	1.5
Merill Lynch	18,985.6	8.8	39	1.1
First Boston	16,973.8	7.8	48	1.4
Salomon Brothers	13,926.5	6.4	26	0.7
Drexel Burnham Lambert	13,443.9	6.2	69	2.0
Shearson Lehman Brothers	12,546.1	5.8	61	1.7
Lazard Freres	7,391.8	3.4	25	0.7
Donaldson Lufkin & Jenrette	5,634.9	2.6	25	0.7
Kidder Peabody	5,447.1	2.5	29	0.8
TOP TARGET ADVISERS				
Goldman Sachs	40,042.4	18.5	105	3.0
First Boston	38,118.0	17.6	126	3.6
Morgan Stanley	18,976.8	8.8	67	1.9
Lazard Freres	16,859.7	7.8	19	0.5
Merill Lynch	15,358.8	7.1	63	1.8
Shearson Lehman Brothers	13,926.6	6.4	105	3.0
Drexel Burnham Lambert	10,241.8	4.7	63	1.8
Dillon Read	9,478.8	4.4	36	1.0
Kidder Peabody	8,084.9	3.7	42	1.2
Salomon Brothers	7,931.2	3.7	50	1.4

Institutional fund management

Uncertainty persists

EIGHT MONTHS later, the crash of 1987 inevitably casts its long shadow over institutional fund managers in the US. For pension funds, the lessons are only slowly sinking in but the mutual funds, being more directly tuned to the volatile emotions of the investing public, are forced to adjust to a drastic fall in sales.

For instance, Gordon Binns, who is in charge of General Motors' $30bn pension funds, considers that many pension funds have not changed their posture since last October – "for the long, run I don't think it's clear what the effect should be," he says.

Bnt Arthur Zeikel, who rums the mutual fund operations of Merrill Lynch, is at the sharp end. "Investors had a very disappointing experience," he says. "The process takes time to run its course."

Whatever the longer term uncertainties for pension funds, certain lessons were rapidly brought home by the crash. For example, portfolio insurance, the system wherehy sophisticated future market programmes were set up to limit the downside risk of equity portfolios, failed to survive the critical test of Black Monday.

But although some quantitative techniques, like portfolio insurance, were victims of the crash, others came through with more or less flying colours. Passive managers, for instance, continued to outperform active managers who, embarrassingly, have failed to beat the broader stock market indices for the past five years.

There has also been a wave of interest in a techniqne known as tactical asset allocation through which exposure to the equity market is varied according to interest rate factors. Fund managers using this system last year were automatically shifted away from the equity market in its most overvalued pre-crash phase.

Diversification also paid off. The typical US pension fund is well spread between bonds and equities, with about 40 per cent in fixed interest investments and 60 per cent stocks. So whereas the weakness of bonds was offset by equities in the first part of 1987, the strength of honds helped to absorb at least part of the dreadful losses on equities in October.

International diversification, though still in its early stages for US pension funds, also rewarded funds handsomely in 1987. According to Intersec Research, overseas investments held by the corporate pension plans covered by the ERISA legislation rose from $45bn to $50bn last year. This was despite the negative effects of so-called "clawback" as funds pulled money back because the dollar's depreciation led to exceeding of overseas allocation targets.

Overseas investment by ERISA funds has risen from only $2bn since 1979, but is still less than 4 per cent of total assets (and only about 1 per cent for the non-ERISA public sector funds).

Mutual Funds

	Total Industry Assets $b	Total Industry Shareholder Accounts (millions)	Total # of Funds
1980	134.7	12.1	564
1981	241.3	17.5	665
1982	296.6	21.4	857
1983	292.9	24.6	1,026
1984	370.6	28.2	1,246
1985	495.5	35.0	1,531
1986	716.3	46.1	1,843
1987	769.9	54.7	2,324

"We would consider that over time the percentages would grow from that level," says James Waterman, senior vice president of Intersec. He suggests that the overseas exposure of the average US fund could double to 7 or 8 per cent over the next 4 or 5 years.

Just how such asset allocation decisions should be made is, however, a contentious subject in the US pension fund industry at present. Leading consultant Rodger Smith of Greenwich Associates thinks plan sponsors should take strategic decisions much more seriously.

"In the past, investment policy has been too separated from pension policy," he argues. "Plan sponsors are going to have to use a longer-term time borizon."

As for management firms, Mr Smith says many are reassessing their style or philosophy in the light of what happened last year. For a start, they are talking to their clients more often. Gordon Binns of GM also emphasises the importance of asset allocation decisions, and with as many as 60 specialised external managers to look after, he has a considerable task.

"It's not easy. You need proper staff to do it, or you need to find advisers." Among smaller funds, he recognises, "some don't have the resources to do it."

At least the $2,000bn pension fund industry has the advantage of a relatively stable inflow of funds, especially in the case of the faster-growing public sector plans which now amount to around $600bn. Moreover the new penalty tax on recapturing surplus assets has slowed the wave of plan terminations in the corporate sector.

Mutual fund managers, however, face a much more fickle clientèle. The pre-crash boom in sales abruptly collapsed, and net sales of equity and fixed income funds slumped from a record $144.4bn in 1986 to only $48.5bn in 1987.

Still, total assets of open-end funds rose from roughly $720bn to $770bn in 1987, although about a third of this total represents the liquid assets placed in money market funds.

This year, many of the more aggressive equity funds have been struggling against a steady flow of redemptions. However, it has not amounted to anything like a panic.

According to Michael Loughlin, marketing specialist at Alliance Capital, which runs mutual funds worth some $8bn, the different distribution systems have shown different results in the aftermath of the crash.

The channels that have held up best have been insurance companies and banks, as opposed to broker-dealers, he says. But brokers have been successful in selling closed-end funds, of which there have been many launched in the past few months, especially in the fixed income sector, where several global income funds have sold heavily in the wake of the depreciation of the dollar.

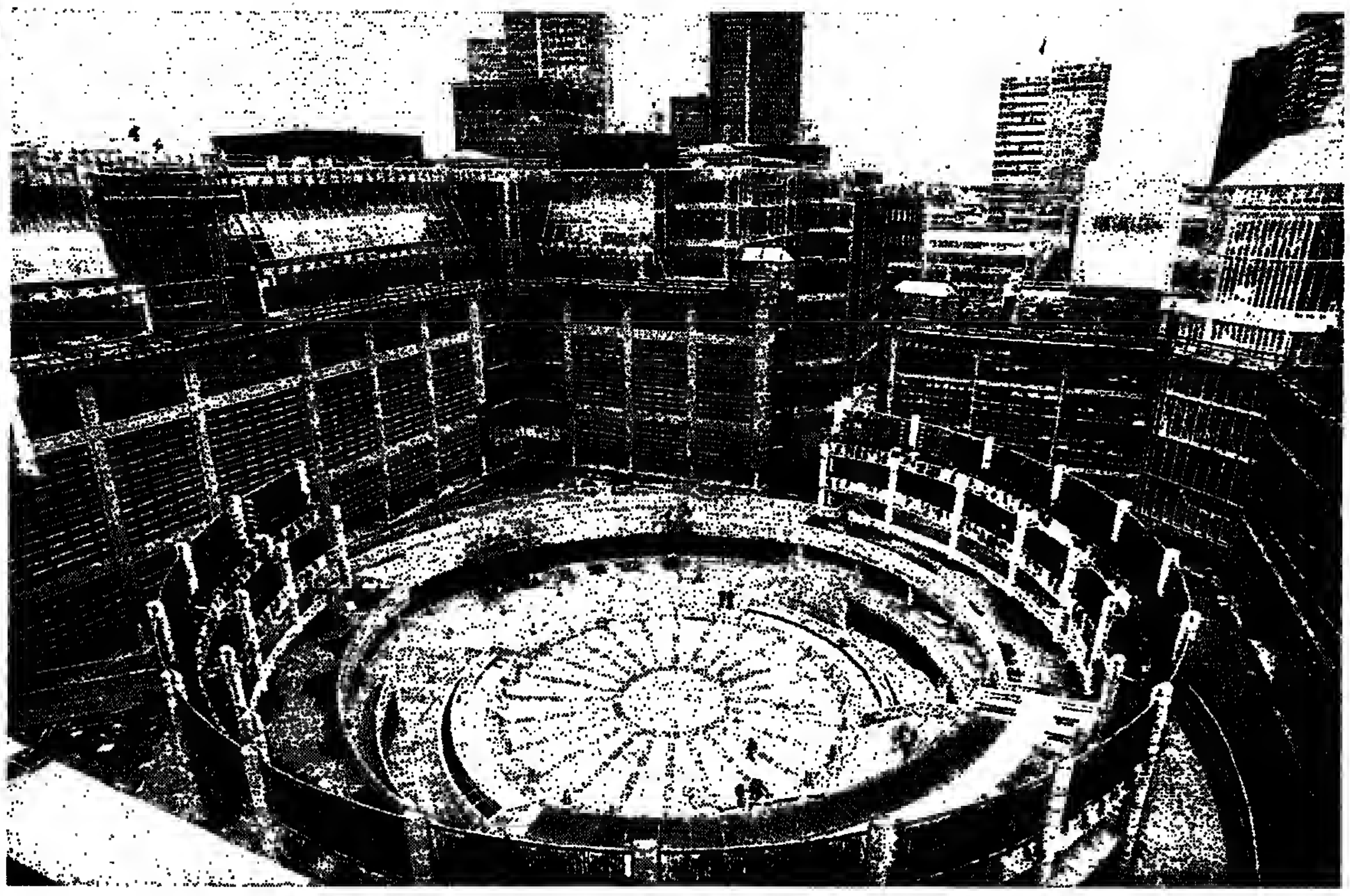
Barry Riley

SECTION IV

FINANCIAL TIMES SURVEY

The expansion of the economy and its increased focus on service industries has encouraged a rippling surge in rental growth from London into the provinces. But, reports **Paul Cheeseright**, Property Correspondent, developers must now provide quality as well as quantity

Demands and needs change



Office Property

THE MARKET is buoyant. The finance is flowing in. The development boom is rippling out of London. It looks as if the office property sector is riding a boom.

Like all sweeping generalisations though, this ona needs some qualification and the operative words are "it looks as if..." A degree of caution is needed because the market splits not only into different geographical areas but also into different types of property. Accommodation needs and demands are changing.

But what all sections of the market have in common is that they have been stimulated by the general movement of expansion in the British economy and the shift in the focus of that economy increasingly towards the service industries. In any case, the development of lighter, high technology industry has obscured the traditional division of office and industrial property.

Certainly the national averages show a sharp rise in the returns from office property. The Investment Property Databank, which measures the performance of institutional property, calculated that total returns from offices in 1987 was 27.1 per cent, by far the highest percentage since 1981. Capital values have been driven up. Rental growth at a national average of 24 per cent has been the highest of the decade.

Hillier Parker, chartered surveyors, has found from its surveys that *yields* have been steadily narrowing over tha last year - 7.6 per cent last summer, 7.4 per cent last winter and now 7.2 per cent.

But what happens in London does not necessarily happen in Liverpool and the national figures are weighted by the heavy ownership of monitored property in the London area. The development and investment cycles of London and regional centres are not the same thing, although it is true that there is a ripple effect set off by London.

Partly this ripple effect has been caused by the spread of the financial sector. Partly it follows from the spread of growth out of the South East. But the office sector movements in the Midlands and northwards are at the same time the result of growth in the indigenous economies.

It is necessary then to consider the London market in isolation. But the London market itself is fragmented, traditionally divided between the City and the West End. That division, however, has eroded in face of the strong demand for space which has pushed up rents towards the £70 a square foot level in the heart of the City and to demands for over £60 at Lansdowne House in the heart of the West End. At the same time there has been a strong rise in rents in what was once a sort of nether buffer zone – Fleet Street and Holborn.

It was tha demands of the financial sector, responding to the possibilities of expansion inherent in market deregulation that set np the high level of demand for space in the City. That demand set off a development boom which is now starting to work its way into the system in terms of available space.

Supply and demand in the confines of the Square Mile is expected to balance out by the end of the decade and while the evidence is not conclusive there is a growing body of opinion which holds that rents have probably reached a plateau.

That does not seem to be the case in the West End, where the property units tend to be smaller and the development opportunities less, because of the widespread need for conservation. Arguably the development cycle in the West End, where the nature of the market demand is in any case wider than the City, is running behind that of the Square Mile.

But both will inevitably be affected by the geographical expansion of the office stock. One of the reasons behind the development of Canary Wharf, in London Docklands, by Olympia & York, is that there is scope in London for a third office centre. But office development in London Docklands is not only Canary Wharf.

There are a host of other projects, ready, under construction or planned in its environs and then further east there will be additions to the stock at the Royal Docks. But on top of these eastern developments there are plans for further offices at Kings Cross and Paddington, not to speak of the continuing development along the south bank of the Thames facing the City and the West End.

Among the developers concerned there is an almost blind faith that continned expansion of the financial sector and the professions which feed off it, and of the economy at large, will provide enough demand to absorb the extra space. It cannot be clear at this stage whether that confidence is justified.

All of this is far cry from the situation in regional centres where the scale of development is much smaller and where developers are more likely to think in terms of rents of £8 or £10 or £12 a square foot.

It is fair to say that the peaks and troughs of the regional market are less pronounced than that of London. It is also fair to say that the surplus accommodation that dogged many of the markets in the 1970s and early 1980s has been absorbed.

In centres like Glasgow and Manchester, Leeds and Birmingham, Bristol and Cardiff there has been some incentive to undertake new development. But in other centres like Tyneside and Liverpool, rental levels have not reached the sort of figure which would make developers confident enough to chance their arm or the investing institutions more confident about investment.

Often, however, space has been tight and because there has not been the supply available to stimulate the market, rental levels have been static. Where space has become available – South Manchester and Mercury Court, Liverpool, for example – this has allowed the market to break out because there has been a means of expression for latent demand.

Investment funds are now moving out of London looking for a home and more consideration is being given by portfolio managers and private individuals to regional office investments than a year ago. The increasing availability of funds is likely in itself to be a stimulus to the development market.

One reason why there has been a boom in central London and its fringe areas has been the willingness of the banks to provide development finance and the readiness of the investing institutions to buy the product.

Office development and office investment has been a featureof the readiness of the banks to lend and the institutions to invest. Net institutional investment in property in the last quarter of 1987 was £738m, the highest figure for years, while bank lending to property companies rose to £15bn from £13.3n over the first quarter of this year.

However, the banks and institutions are as aware as any of the dangers of overheating in the central London market, especially given the lower level of trade in, and the rationalisation of, the securities industry following last October's stock market crash. As well, the supply-demand situation has acted as a warning against high-priced fringe products.

All of this has led to money seeking a new home. Some of this has gone into the provision of office facilities outside the London area but within the influence of it. Thus development has snaked down the motorways leading out of London, especially on the south and west sides, but with increasing force on the north, north east and south east sides.

Outside the established urban centres, some of this money has moved into the provision of business parks, the spread of which is an increasingly powerful phenomenon on the office scene.

To some degree, the growing popularity of business parks for companies who have no immediate need to be in a town centreis a reaction against the problems of urban working and living. Accommodation is often cheaper and the surroundings are more leisured and spacious.

The business park market has

turn to page 6

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Picture: Rosehaugh Stanhope's Broadgate development at Liverpool St - quintessence of the City boom

For the City Office picture - see Page 5.

Here, and opposite, **David Lawson** looks at the London scene

Practically a single market

MAKING distinctions between the separate parts of the London office market is becoming more difficult every day. Only a couple of years ago the small cluster of financial buildings around the Bank stood supremely expensive and inviolate, obeying rules quite different from the rest of the metropolis, let alone the country.

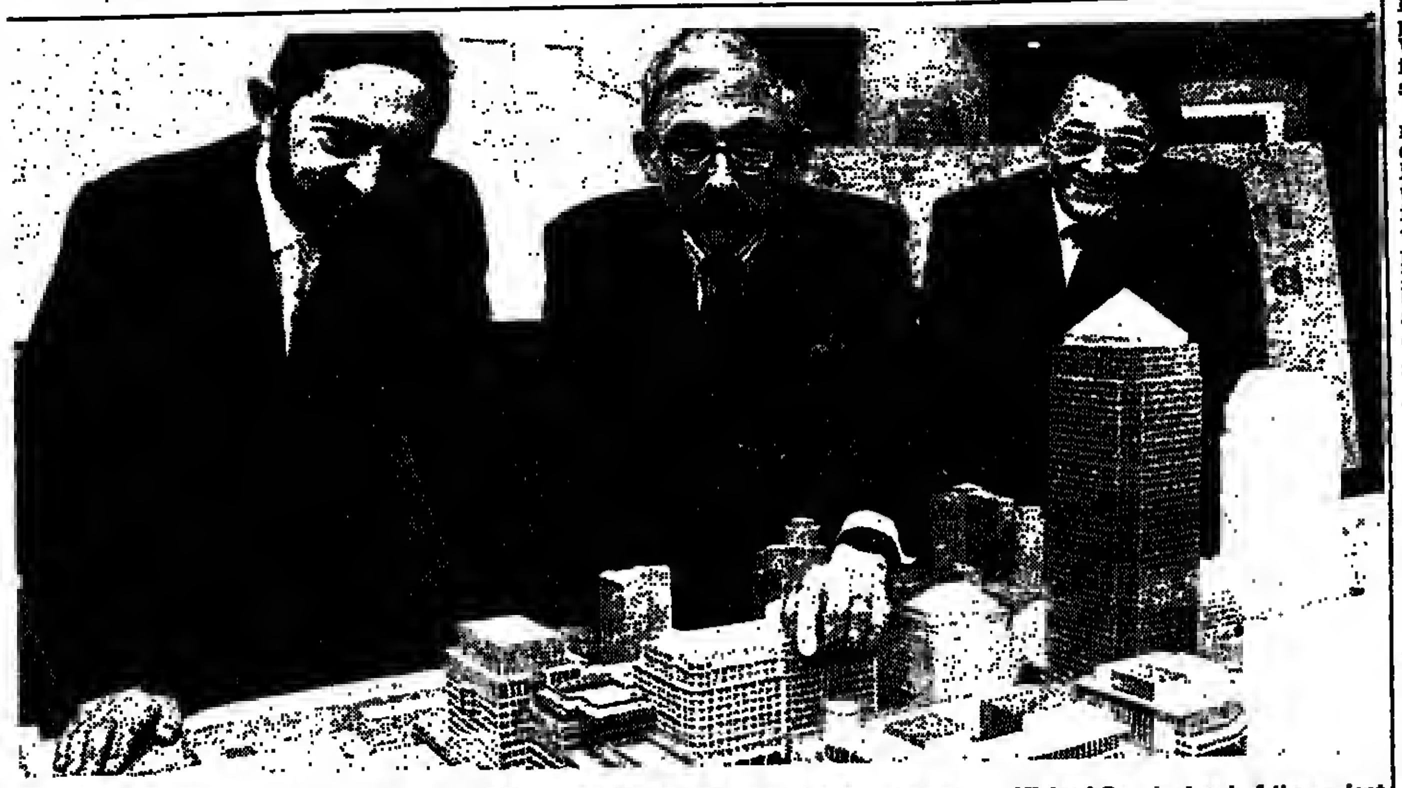
A short taxi ride away through the twilight area of Holborn, the West End was like another world, with a much bigger stock of space playing second fiddle in the wealth stakes. In the other direction, the wide open spaces of Docklands were literally a different world. Tenants and developers desperate for space would as soon go to the dark side of the moon as to the acres of available land a step down the road.

It took a bang and a crash to bring these three aloof neighbours together. The Big Bang drove big tenants out of hallowed City ground in search of the large buildings they felt they needed - yes, even unto Docklands (perhaps).

The stock market crash pricked the balloon carrying the City to even further heights of wealth. But as it hovered, the West End continued to float upwards.

Today there is practically a single London market. A financial group is as likely to locate in Berkeley Square as Lombard Street; a firm of solicitors will be found in one of the giant financial factories on the City fringe rather than out in Victoria (although the rent may have been cut); and an insurance broker will be looking forward to a view over Millwall Dock rather than the Lloyd's building.

But each area still has its foibles and bears separate examination, if only to determine how similar these worlds are becoming.



Mr Paul Reichmann (left) of Olympia & York; Sir Roy Strong, adviser to the developers; and Mr Michael Dennis, head of the project

Docklands

Birth of a strapping baby

THE CONCEPTION was spectacular, the pregnancy difficult and the much-postponed birth frantic. Now the neighbours wait with baited breath to see what ructions the giant infant growing in the Isle of Dogs will cause to their comfortable routines.

Camps are still divided about how Canary Wharf will fare. Its adoptive parent, Olympia & York, is convinced that London needs such a strapping child to prosper as a world financial centre. The Canadian company will certainly nurture its charge to a bulky 5m sq ft of high-quality office space, because that was the price of the adoption papers signed with the London Docklands Development Corporation.

Whether it grows to twice that size as planned may depend on how many playmates it attracts. Some are already showing curionsity about the new baby. Smaller companions born with a lot less fuss such as Harbour Exchange and Heron Quays have started to prove popular, attracting computer centres and insurance brokers. There is no logical reason why others will not follow once they get up the courage to leave home.

But the market will not lose its suspicions until someone with a real pedigree takes the plunge. Perhaps a footlooee blue-chip bank such as the Midland, already frustrated in its wish to take the 1m sq ft second phase of London Bridge City while the government holds up planning permission.

Those suspicions may last for a while, because some major financial institutional tenants could postpone their decisions on new premises because of the surge of space which is planned to come on stream around the City fringes at the same time as Canary Wharf matures in 1990. Why jump in now when they can drive a better bargain later?

But not everyone can wait. Many insurance concerns which took space on the eastern fringes of the City at around £15 a sq ft will soon face the penalty of the boom in values since then. Pressure to move out will be high when rents are reviewed to more than dooble that level, says Peter Hill of Debenham Tewson & Chinnocks.

As a partner in one of the agencies appointed to let Canary Wharf (with Jones Lang Wootton), his views might be considered biased. But there is no doubt that professionals are more sensitive to rent levels than the financial groups they are replacing in the City letting market. Partners are very aware that they are spending their own money, not a company's.

And as Jeremy Helsby of Savills points ont, the insurance industry is going through a period of overcapacity and reduced margins, while the weakness of the dollar is causing concern to some underwriters. The relatively cheap occupation costs of less than £20 a sq ft in Docklands will be appealing. Even the slowdown in City rents cannot hide the massive differential.

The Reichmann brothers who own Canary Wharf are convinced that front-office operations will flock in. Even the development's sopporters do not go that far, plumping for a mix of back-office and general business operations and perhaps a few overseas banks. Early occupation will be essential to success because of the competing central London schemes in the pipeline, says Rodney Petty of Weatheralls.

In New York the Reichmanns overcame that problem by taking buildings off the hands of city centre tenants as an incentive to bring them in. So the City could face the double threat that not only will the Isle of Dogs provide up to 3.5m sq ft of space before 1990, the bounceback affect could throw empty buildings on the market.

West End

Set to outdo even the City

THE PROSPECT of taking centre stage seems appropriate for an area so rich in theatrical tradition as the West End. Agents have been predicting since the October crash that the time had come for Westminster to take the limelight from its neighbouring City, but events have been moving even faster than they could have forecast.

After years of being left trailing in the wake of prima donna performances by the Square Mile, parts of Mayfair will now set back tenants almost as much as they would pay to be in the shadow of the Bank of England. Agents Hillier Parker predict that within a year the West End will for the first time in history become more expensive than the City.

The two areas now sit like twin rent mountains, towering over everything else in Britain. Between them runs the shallower trough of Holborn, but even this is filling as demand spreads outwards like sand settling off a peak. Land Securities has pre-let its 114,000 sq ft Salisbury Square building to Peat Marwick, setting a new tone for the area, and the colonisation of Fleet Street by international banks creates a high-rent strip joining the two cities.

If the metapbor is switched from rent mountains to potential office supply, the real reason behind West End and mid-town revival becomes clear. While the City has development schemes lined up to the horizon, the West End faces at least another couple of barren years.

Meanwhile, demand keeps rising in line with a general expansion of the economy. Big companies want desperately to keep their flagship offices in the area but find it hard to locate the right buildings. Smaller ones are being elbowed out as multi-let premises are redeveloped to take advantage of the new bonanza.

Supply in Mayfair is almost permanently restricted by the constraints of history (Westminster as a whole contains more than 10,000 protected buildings and three-qoarters of the area falls into conservation zones). The clampdown on "temporary" office permits coming up for renewal in 1990 makes the prospects even worse, with about half the 1m sq ft likely to revert back to residential use through deals between planners and landlords like Grosvenor Estates and BP Pensions.

The laws of supply and demand dictate that rents must rise, and so they have. Last year they bootoed by 50 per cent and prime levels now easily exceed £50 a sq ft. Weatherall Green & Smith pick out the classic example of Queen's House in St James's, let exactly a year ago for £39.50 a sq ft and now back on the market at £54.

The upsurge is widepread across the West End. In 1986 Salomon brothers were greeted almost with a ticker-tape parade after paying almost £20 a sq ft for Greycoat's Victoria Plaza development over the station, showing how financial groups were set to colonise the area and raise values after years of over-supply and apathy.

Within a year the streamers were out again for Nikko Securities and First Bank of Boston, which seemed to confirm the trend by paying the then astounding rent of £28.50 a sq ft in Victoria Street. But the balloon refuses to stop rising. Sublettings in Victoria Plaza are now rumoured at £38 a sq ft. But the deal everyone is waiting to see consumated is for Legal & General's 175,000 sq ft Lansdowne House overlooking Berkeley Square. Agents Richard Ellis and Weatheralls are still keeping mum about a possible letting, bot the market now believes space will go for close to £62 a sq ft – outshining anything on this scale seen so far in the City. So much for those who offered free advice a year or so ago that L&G were mad not to take offers of £40 a sq ft.

This is admittedly a special building; nothing of comparable size is possible in such a prime location in the forseeable future. But the trend towards £60 is well established according to Kennetb Cohen of D E&J Levy. He should know, after seeing another big building, Land Securities' Devonshire House in Piccadilly, let to multiple tenants at £22 a sq ft in 1985 because no big fish were caught. The latest re-let was at £45.

45 Berkeley Square: the lease was recently acqired by Cluttons

All this joy for landlords is more a tale of woe for smaller tenants. Many face the fate of their cousins in the City, frozen out for lack of space or the means to pay sucb reot levels. Reviews are now awaited with horror by many businesses whose outgoings were last set during the slump of five years ago.

They cannot escape the pressure in bideaways like Soho, now turning into a fashionable office location. Covent Garden also showed its stripes when the proposed new Extel headquerters was relet for the equivalent of £37.50 a sq ft to Schroder Wagg – a 30 per cent rise in less than a year and a 100 per cent increase on the original funding level.

The Strand is already well colonised by well-heeled City expatriates. in fact it contains about the only major West End casualty of the crash. Manufacturers Hanover, which took over the Adelphi and then decided to sub-let. But the space is already being snapped up by the sort of professional firms which have always provided the bedrock of West End business and far outnumber the financial groups that grabbed the headlines when the Big Bang pushed them out of the City.

Perhaps the one way out is into refurbishments north of Oxford Street towards Euston and Marylebone Road, or in the other direction to Pimlico and Waterloo. Michael Dow of Jones Lang Wootton sees these as the next high-growth areas with displaced tenants bidding up rent levels.

Paddington Station could also repeat the impact that Liverpool Street bas bad on the City, although on a smaller scale, with schemes for more than 500,000 sq ft of offices on the stocks for the goods yard and canal basin. Weatheralls are also cogitating about what to advise the health authority to do with its surplus land around St Mary's Hospital. Whether smaller tenants will get a look-in remains to be seen. There are plenty of big fish still swimming around in the pool. The question is whether they look west or east for a net to jump into. Docklands casts a long, long shadow.

OFFICE PROPERTY 3

Demand for new office accommodation in the City remains high, despite last October's Big Crash. Even so, . .

Square Mile space set to exceed requirements

EAR PLUGS would be a useful accessory to the Filofax in the City nowadays. You can hardly hear yourself think for all the background noise. First there was the Big Bang, then the Big Crash; and behind it all the constant thunder from construction of ever more office space.

Not that anyone would dare to block their ears for fear of missing the whisper of yet another change in the market. Everyone was braced for the first bang.

The wider economy proved impervious to City woes. It kept growing and swelling demand

Demand and supply took off as tenants and investors stocked up for a seemingly bright future. The crash was a heart-stopping surprise, however, shocking many into either panic or paralysis. Lettings ground to a halt after Black Monday as potential tenants took a hard look at their future. Rents which had almost doubled in little over a year of seemingly insatiable demand for space suddenly ground to a halt.

Within a few months, however, it became apparent that little seemed to have changed. Some financial groups sacked staff and sub-let bits of their shiny new buildings, but the wider economy proved impervious to City woes. It kept growing, swelling demand for the services of accountants, solicitors and other professionals, who jumped forward in the queue for some of the new office space.

There are fears, however, that even this growing band may not be sufficient to take up all the space due to be completed over the next few years. The wheels of development are difficult to get rolling in Britain, but once on the move they are hard to slow.

Demand has not collapsed as the Jeremiahs predicted, but it has faded. Rodney Petty of Weatherall Green & Smith has cut estimates of potential requirements from 7m to 5m sq ft since last October, with half of that coming from professional firms.

Rents which grew 45 per cent in the City core and 30 per cent on the fringes last year have slowed to a canter says Hillier Parker. In the six months after the crash levels rose only 4 per cent in the centre and 7 per cent on the fringes.

Mentions of £70 a sq ft as the prime rate are common, but apart from a few City core suites - and a certain well-known firm of surveyors which paid this much for its new offices - little evidence exists for such optimism (or pessimism for tenants). Rumour is rife however of a £87 letting of 64 Cornhill.

The real benchmark was set in the £40m sale by Weatheralls of 51 Moorgate for Wates City to Westdeutsche Landesbank. Calculated at a 4.8 per cent yield, this equates to a rent of around £58 a sq ft, the same amount paid by Westpac to BP Pensions for 75 King William Street in the most significant straightforward letting of this year.

Some look on these deals as confirmation of continuing confidence after the crash. But in relative terms they are a blow to the City's pride, as they could both be topped by a West End letting this summer. Lansdowne House in Berkeley Square is likely to go for close to £62 a sq ft. For the first time in history, the streets of gold around the Bank will no longer be the most expensive piece of real estate in the western hemisphere.

Doubts about the future of some proposed schemes are beginning to harden as available space in the City/Holborn area climbs over 2m sq ft - double last year's average. In May alone, the collapse of the James Capel deal in Broadgate plus a stream of second-hand offices boosted supply by 30 per cent, the largest monthly jump for years, says Debenham Tewson & Chinnocks.

Up to 5m sq ft will still be available by the end of next year and another 7m sq ft will come on stream in 1990 according to Mr Petty. And there seems little let-up in the treadmill. City planners gave the nod to five schemes totalling more than 2m sq ft at one meeting in May.

The City is reaping the harvest sown among those planners a year or so ago by fears that it would lose out to Docklands as a major financial centre. Permission was given for around 12m sq ft of offices - 10 per cent of the total stock - in the run-up to the crash.

Overall, Mr Petty sees something like 16m sq ft of potential supply waiting in the wings. For instance, Rosehaugh Stanhope plans wholesale redevelopment of Holborn Station and Ludgate Hill. The Bill to release Spitalfields is sailing through Parliament, and the controversial Paternoster Square scheme looks more realistic since Mountleigh's Tony Clegg took sole charge. Meanwhile,the shadow of another 6m sq ft at King's Cross waits on the horizon.

How much of this space will see the light of day in the near future must be questionable, particularly with the threat of almost 3.5m sq ft coming up for grabs in the Isle of Dogs by the end of the decade. Two big schemes, No 1 London Wall and nearby Moor House, have already been pushed onto the sidelines.

Britain's biggest property investor, the Prudential, cannot have too many doubts about the future, however. It has just proudly announced the go-ahead on the biggest scheme in the City. Minster Court, which comprises three blocks ranging from 140,000 to 300,000 sq ft built around Mincing Lane, should come on stream in 1990.

All this extra space will give tenants increasing power over landlords in future and maybe hold companies in the more traditional city locations. Rent concessions - rarely admitted in the publicity surrounding lettings - are already emerging as landlords try to get tenants tied up before the flood.

This tougher market could also force developers to give up the idea of shell-and-core schemes, finishing off buildings instead. They will have to give better quality and try to net a wider bag of tenants by breaking up schemes into smaller packages, says Peter Hill of Debenham Tewson & Chinnocks.

Overall, the City agents are remarkably calm about the impending torrent of new space. Even discounting their natural bias, they have some justification for not jumping out of windows. Michael Soames of Knight Frank & Rutley points out that at least five companies are seeking buildings of 500,000 sq ft or more. Only one proposed City scheme could meet that need - the mock Houses of Parliament between Tower and London bridges planned by St Martins Development. But that has been held up while the government studies the plans.

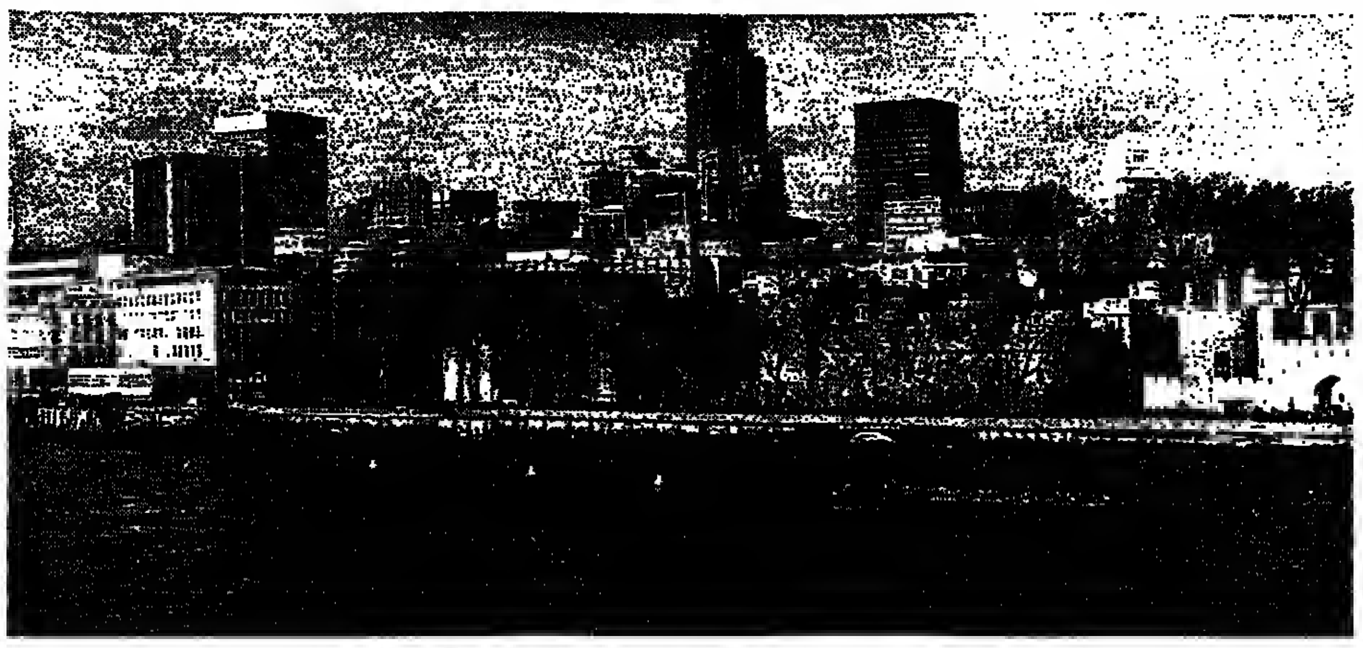
In any case, developers are more responsive to real market conditions than in the bad old days of chucking up blocks and waiting for a tenant, says Peter Hill. Much of the space they are planning to the end of the decade is targetted at pre-letting.

Demand will still outstrip supply by more than 3m sq ft next year. In the near future, anything over 25,000 sq ft will remain in short supply, with a very limited choice for anyone looking for buildings of more than 100,000sq ft. Jeremy Helsby of Savills

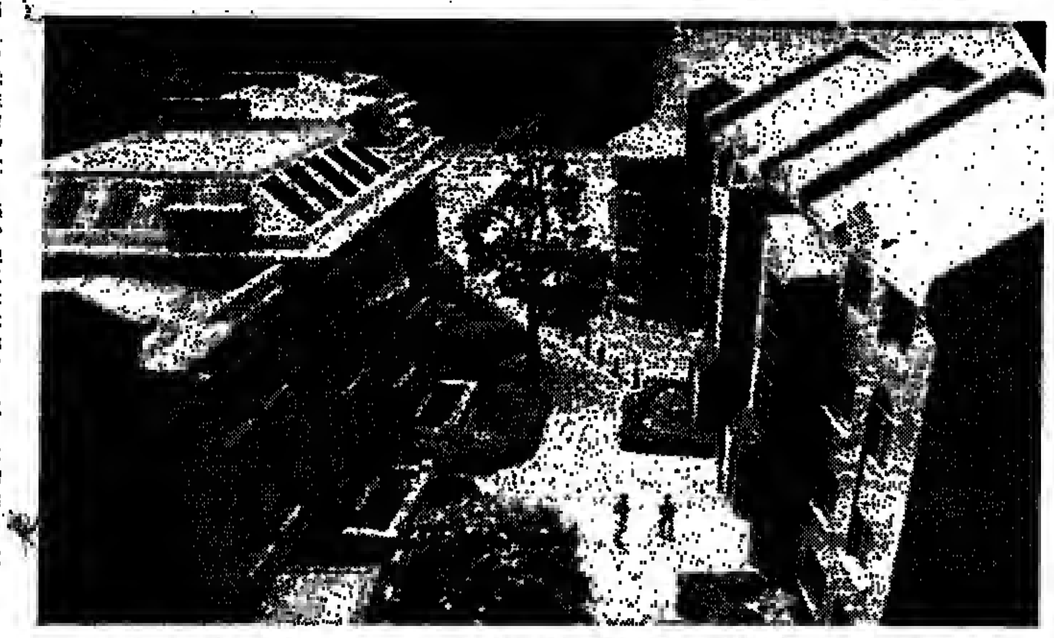
Rent concessions, rarely admitted in the publicity surrounding lettings, are already emerging

claims this should keep rents "firm" to the end of the decade.

Beyond that, with Docklands space coming on stream as well as other City fringe schemes maturing, he is as unwilling as anyone else to make hard predictions. The one thing which seems certain is that the City will be a more welcome place for tenants. Ironically, it may even elbow out Docklands as an alternative location for financial groups fleeing an increasingly expensive West End.



The famous Square Mile: The City of London seen from Tower Bridge



Model of the Ladbroke Group's recently-announced Angel Gate office village, City Road, EC1.

Phase 5 of Rosehaugh Stanhope's Broadgate recently acquired by Bankers Trust company

With the equity market looking less stable, institutional investors have revived their interest in property

Offices become a natural haven for investment

A STRONG flow of funds has been moving into the office property market. Investment interest has been increasing. Bank lending for development in the sector has been rising.

Just over half of the institutional investment in the property sector has been going into the office sector and this movement has chimed with a higher level of of activity from owner-occupiers. At the same time there has been increasing competition among the banks to provide development finance for a sector which is responding to the demands thrown up by economic growth.

The office sector tends to lag behind the general movement of the economy and after relatively modest total returns between 1982 and 1986, there was a surge in values last year. Office property has therefore been a natural haven for investment money.

But property returns have been increasing at the same time as equity returns have looked less stable. The stock market crash of October 1987 hastened the return of investment funds to the property market.

As capital values have been pushed up and rental growth, led by the central London office sector, has spread outwards, property developers have been able to *exploit the search by banks for* fresh lending destinations. Although there were signs immediately after the stock market crash that the banks were taking a more cautious attitude towards some London projects, the aggregate of bank lending to property companies has not diminished. By the end of the 1988 first quarter, the total amount of bank lending to property companies had jumped to over £15bn from £13.3bn at the end of 1987. Nearly half of that had come from retail banks, but there was a growing proportion of lending from foreign banks, which accounted for over a third of the total. Although the Bank of England does not break down the figures into projects, it is a fair assumption that at least 40 per cent of the total has gone to office projects.

The centre of this activity has been the London area. Foreign banks generally are less comfortable with lending in the regions, of which they have had little experience, although latterly there have been indications of an appreciation that lending opportunities might be advantageously pursued outside the *M25*.

The competition between the banks has led to more innovative forms of funding, frequently based on experience of property financing from the US.

The large property investment companies like Land Securities and MEPC, each with extensive office interests in the London area, have been able to take advantage of lower interest rates to raise funds through commercial paper issues and there has been a flood of debenture issues in the sector. But there has also been an increasing trend among development companies to move borrowing off the balance sheet. Joint venture companies tied to a particular project are established and they become associates of the parents. Loans, often on a syndicated basis, are set up on the basis of the security of the *project itself, rather than on the* security of the borrower.

Foreign banks are less comfortable lending in the regions

This spread of non-recourse or limited recourse lending, which leaves the borrower unexposed but which gives the banks the project if charges are not met, has been used extensively to fund the various phases of the Broadgate office complex, under development by Rosehaugh Stanhope. It has cropped up, in another recent example, in Speyhawk's financing arrangements for a building over Cannon Street railway station. Both of these examples are in the City of London.

But there has been concern that, while development finance has been seen to be plentiful, there are not enough investment funds available to provide an ultimate buyer for the completed projects – to provide, as property people say, a take-out.

There has also been concern about the level of foreign bank lending in the sector. And most of the large non-recourse loans have a heavy representation of foreign banks within the syndication. The concern is related to uncertainty about whether the foreign banks have enough experience of the domestic property market to make prudent appraisals.

Concern about the spread of non-recourse lending was expressed a year ago by Mr Robin Leigh-Pemberton, Governor of the Bank of England, in a speech *to the British Property Federation*. The Bank continues closely *to monitor the situation* although it is not on battle alert.

The point here is that the strength of the market has meant that so far there has been enough investment interest to buy *completed projects* – indeed there has been a good deal of institutional pre-funding – and a continued search by office users for new space.

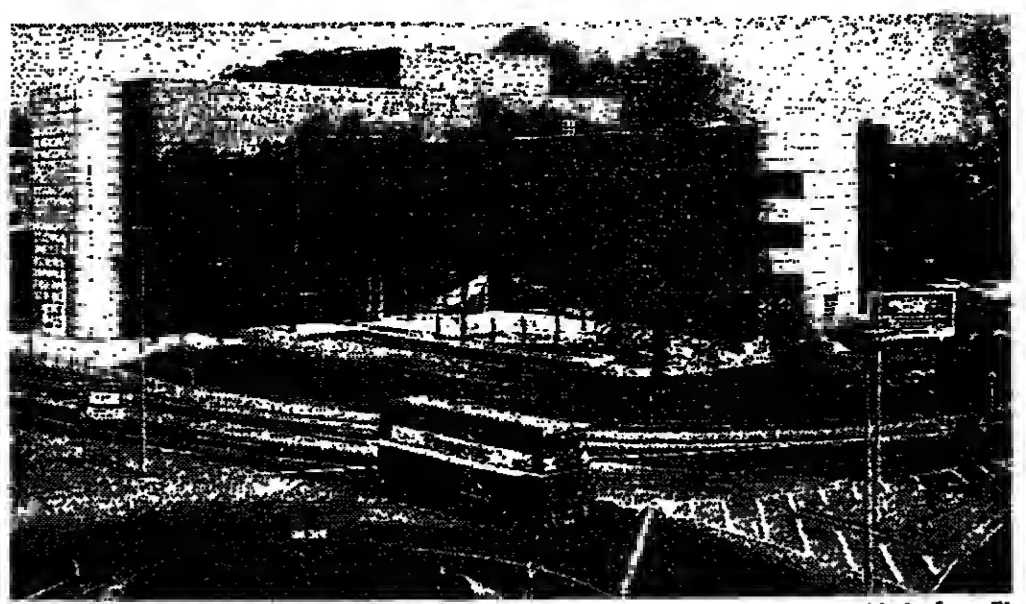
To put it another way, the strength of the economy and the movement of investment trends have combined so far to keep the sector clear of trouble.

A major factor here has been the gradual shift in the position of the financial institutions. Although there have been some – Prudential, Norwich Union, Standard Life, Electricity Supply Nominees, Postel, the BP Pension Fund, for example – who have shown a continued commitment to property, investment in the sector has been sluggish.

This changed in the second half of last year, and in the last quarter there was net institutional investment of £736m, according to the official figures. Also Fletcher King, chartered surveyors, reported that a survey of 20 portfolio managers revealed a virtually doubling of asset allocation to property between October 1987 and February 1988.

The first results of the Investment Property Databank's analysis of institutional property holdings showed that at the end of last year 54.5 per cent of them were in the office sector. These office investments were weighted towards London and the South East.

Last year, IPD said in its provisional findings, the institutions received a total return of 27.1 per cent on their office investments.



County and District Properties' Concept 2000 development at Farnborough: the kind of quality project which is encouraging funds out of London

Capital growth was 20.3 per cent and income growth 9.4 per cent. The growth in rental values was 24 per cent.

As London property has become more expensive and as the central London development boom has responded to strong demand, there is some evidence that the institutions have been looking elsewhere for new office investment, noting that demand has also increased in centres like Glasgow, Manchester, Birmingham, Leeds and Bristol.

It would be wrong at this stage to speak of a regional surge, but the funds are beginning to creep out of London. In the regional centres much of the development and investment has come from local sources, not least from owner-occupiers.

This change, scattered though it might be, in the institutional view of the market has happened over the last year and has been further encouraged by the stock market crash of last October.

Further investment opportunities should start to emerge later this year through the unitised property market on the Stock Exchange. The first issue, the quotation of the preferred shares in Billingsgate City Securities, a single asset property company which owns a City of London office building, is now trading. This is likely to be followed by the launch of property income certificates.

Although the range of property to be offered on this new market will not initially be extensive, it will contain more office buildings and investment in them will be possible through the commitment of relatively small amounts of finance. This should open a new investment window for the smaller funds.

Paul Cheeseright

English Estates' highly successful Lakeland Business Park, Cockermouth, Cumbria: fully let before completion

Business Parks

Rural perspectives

BUSINESS PARKS have opened up new perspectives for the office property market. The pace of development, especially in the southern part of the country, has meant that tenants searching for accommodation are no longer confined to urban areas.

But consideration of the role of business parks on the markets runs immediately into the problem of definition. The word "park" has been freely used to denote a couple of buildings in the suburbs separated from a main road by a few trees. But it would be more accurate to see business parks as outside urban areas.

They would tend to be made up of low-storey buildings spread over a campus of parkland, with plenty of car parking space. The atmosphere would be at least semi-rural. Ideally they would be near a motorway. There is nothing hidden about them; they need good communications.

Development of such parks purely for office use is a comparatively recent phenomenon in the UK, although not in the US, whence the concept came. But there have been three key factors behind their spread.

The first has been the general growth of the economy which has both prompted a rise in the demand for accommodation and hastened the expansion of high technology industries, on which the concept of the parks has been based.

The second has been the change in the Use Classes Order, which broke down the divisions in the categories of property use by creating a new commercial class – B1 – meaning that property hitherto used for industrial and research purposes could be used for offices.

The third has been a growing disillusion with urban conditions of congestion and the relatively high prices that have been demanded for accommodation in traditional centres. The general argument in favour of a business park is that there is no point in enduring the urban difficulties if there is peace and quiet available in the country at a cheaper price.

Pulling these factors together there is thus a new flexibility both in the provision of space and in the likely nature of the demand for it. Not surprisingly the parks are beginning to spread.

This spread starts from the London periphery, where there are projects like Mountleigh's Stockley Park, still one of the biggest envisaged, and fans out down the motorways. As Knight Frank and Rutley, chartered surveyors, noted, virtually all the space in the South East is west of *the M1 and M23*.

"It is ironic that just as town centres are running out of space, out-of-town business parks are maintaining the momentum of development to the west of London and delaying the move of development eastwards that regional policies would like to see and some developers and investors are anticipating," KFR said.

Monitoring the rental growth of high tech buildings, which form the basis of the current concept of business parks, Fuller Peiser, chartered surveyors, noted that the fastest growth has occurred in the West London and Reading areas, followed by Hemel Hempstead and Basingstoke.

At the same time, however, there is evidence that the established market to the west of London is beginning to spread eastwards. *This has been noticeable* in the take-up of space at Mr Nicky Phillips's development at Luton Hoo and in the plans that have emerged for a major new business park at West Malling in Kent to be developed by Rouse and Associates.

Certainly the plans in Kent reflect the business prospects which ere seen as likely to emerge with the completion of Eurotunnel. Proposals for major mixed developments in the Ashford area, now *in the planning* process, all contain a business park element.

While it is true that the focus of business park activity has been towards the west of London as far as, say, Aztec West, the Arlington property outside Bristol, and towards the south down the M3 and along the M27, the spread has also moved north.

Plans and developments have now come through in Birmingham and Coventry, in Crewe, and near Teesside where Cameron Hall Developments has advanced a project for a business park on a country estate once owned by the Londonderry family.

All these are new developments but now that the Government has posted a new Use Classes Order there is the scope for changing existing industrial parks, although it is true that the planning authorities are not automatically accepting changes.

One of the companies which can benefit from such changes is Slough Estates. The new Use Classes Order, it said, enables it *and other companies* "to respond to the increasing demand for office space unfettered by out-of-date planning restrictions, and for the first time allows a wider range of uses to be contem*plated for land hitherto zoned for* industrial premises."

But the market is in some turmoil. Institutions and property companies – Prudential, Standard Life, Arlington, London and Edinburgh Trust, St Martins Property, Sheraton, Slough Estates, Speyhawk, Trafalgar House and so on – have been moving both to meet existing and create new demand.

The question is whether, in areas like Reading, the plethora *of their projects is excessive for* the likely demand. Much will depend on the future movement of the economy. But with increasing space likely to become available it seems likely that rent increases are likely to be restrained.

Nonetheless, the response of the property companies is an indication of the ferment of economic activity, especially in the South. It is one of the factors underpinning the demand for housing in the environmentally sensitive areas that latterly has set off such furious debate in planning and political circles.

Paul Cheeseright

OFFICE PROPERTY 5

Rents are rising again with the prospect of space shortages in key areas

Change of fortune in the main provincial centres

THE STUBBORN shadows of empty office buildings have almost disappeared from most of Britain's main provincial centres after years of blanking out the sunshine of a steadily improving economy. Rents are rising again as the prospect of shortages of space becomes a reality.

Suddenly, it has become economic to build again in places where the returns were just not viable, and developers are digging out their old road maps to find the quickest routes to places such as Bristol, Edinburgh and Birmingham.

Even Liverpool has found some fans after years of stigma and rejection.

Sometimes the outsiders are too late. Locals, and the few developers who had the courage to stay, have waited too long to allow others to steal their thunder. That leaves the prospect of barren times for tenants bunting for fast-disappearing space in the next year or so.

That also means pressure will continue to build up as companies are frustrated from expanding regional headquarters, so the feast of space set to come on stream in the 1990s could be booked up long before it is finished.

The stock market crash is also partly to blame for rising interest from developers. When the earthquake hit the City, half-forgotten rules ahont diversification around the country and safety in bricks and mortar were rediscovered.

EDINBURGH

THE CRASH of falling share prices was as deafening in Edinburgh as in London. After all, this is the centre for some of Britain's biggest financial institutions. But the tremors had little effect on the office property market.

Like the City of London, Edinburgh has a rich stock of expanding professional groups like accountants and lawyers to replace any nervous financial concerns in the queue for space. But unlike the City, it does not have a big stock of developments ready to come on stream.

Snpply has crept npwards while take-up jumped by more than 40 per cent in the year to April, according to agents Kenneth Ryden; consolidating rents in prime central space at between £9 and £12 a sq ft.

Tight planning controls mean the city has difficulty meeting the needs of big space users in the market, but some large schemes are on the cards.

Scottish Metropolitan Property beat a crowded field of more than 20 developers to win the right to build 180,000 sq ft on the Opera House site in Castle Street. But these will not be ready until late 1990.

Meanwhile, much of the energy of Weatherall Green & Smit's new office is going into the fight on behalf of Norfolk Capital for 400,000 sq ft of offices next to its Caladonian Hotel.

But while this is bogged down there will be a "window" of slack supply for a couple of years during which rents will keep spiralling npwards, says Ryden. Even when the new space becomes available, most could be absorbed by expanding local firms, which are estimated by Scottish Financial Enterprise to have a potential demand for some 750,000 sq ft.

GLASGOW

THE CITY is experiencing a similar economic bnoyancy, helped along by the publicity surrounding the garden festival. But it also has a lot more office space available. So much, in fact, that Rydens say developers may have to consider multiple lettings unless their buildings are in top locations and the development of peripheral schemes is likely to slow down over the next few years.

Add to this the prospect of yet more completions and a number of 1960s blocks ripe for redevelopment and the chances of spectacular rental growth seem limited. Rents have hardened around £10 a sq ft, the level achieved in a pre-let by Scottish Provident to Royal Insurance of 40,000 sq ft in St Vincent Street. But the magic £12 threshold could be some way off.

LEEDS

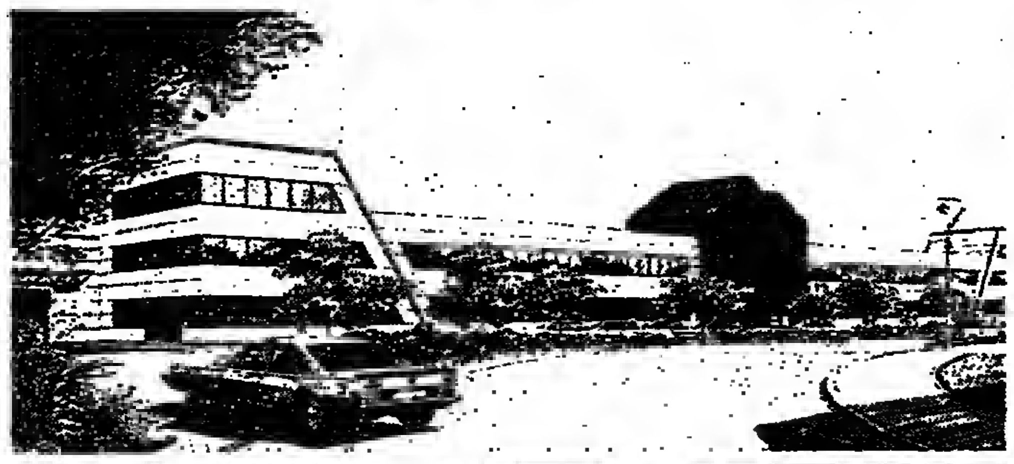
PROFESSIONAL firms are grabbing office space almost as soon as it becomes available, eating away at the extra new space expected to relieve pressure in the city. More than 175,000 sq ft is under way bnt pre-lets are becoming common.

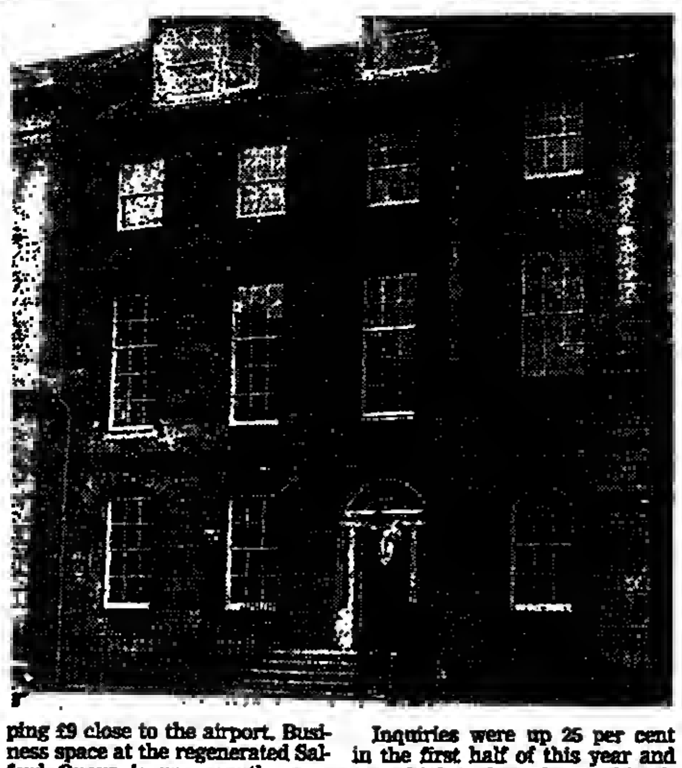
Last year's biggest deal involved Royal Insurance picking up 42,000 sq ft from Beazer Developments in St Johns, a building where final lettings were at £6.75 a sq ft. Later in 1987 smaller sublettings were common at £8, but prelets are now taking place above £10 as the "frenetic" activity continues, says Weatherall Hollis & Gale.

The final phase of Cloth Hall Court has just gone to a solicitors at this level – an irony for the electricity pension fund which sold the scheme to a local property group after feeling the icy draught of the earlier offices glut.

Weatheralls estimate that some 350,000 sq ft of space has been taken up in the last 12 months compared with 175,000 sq ft now under construction. Investors are taking note of the equation after largely standing on the sidelines since the glum years of the early 1980s, when 1m sq ft of space stood empty in the centre and rents stood still.

If demand continues at its present pace, values must keep rising, as supply will remain limited until plans such as the £400m Mountleigh/P & O regeneration partnership with the city council takes off.





□ The new BeWise headquarters, above, on the site of the former Land Rover site on the Cranmore Industrial Estate, Solihull. Right: offices of Adam and Co., in Charlotte Square, Edinburgh. Tight planning controls have put pressure on big space-users in the city.

MANCHESTER

SHORTAGE of space is becoming a major blockage to companies desperate to expand and has kicked rents into a new dimension. Almost all the avalable space in the city centre has been let or reserved and no new developments will be on the market for almost a year, says Simon Reynolds of Grimley J R Eve.

Rents will break £10 a sq ft by early next year and keep rising, he predicts. Secondary and refurbished space is bathing in the reflected glory and seeing valnes rising hy 15 per cent a year. The few suites between 2,000 and 5,000 sq ft available are fetching £7.50 a sq ft.

Almost 200,000 sq ft of new and renovated space was let in the last six months of 1987 and inquiries have soared even further this year, according to the Richard Ellis.

With total completions of 80,000 sq ft this year and less than 127,000 in 1989, the agents are predicting rents of £12 a sq ft by the autumn of that year.

Even the out-of-town scene is short of supply, with rents topping £9 close to the airport. Business space at the regenerated Salford Quays is now worth more than £8 a sq ft. South Manchester saw almost 100,000 sq ft taken up late last year and a similar amount of the 250,000 sq ft due for completion this year is reserved.

That leaves less than a year's supply, says Richard Ellis, so rents which have reached £9.50 in Wilmslow and £8 in Cheadle should keep floating npwards. The agents say investment deals have been few and far between in the city centre and non-existent in south Manchester.

Institutions have remained reluctant to dive in and many of the city's schemes bave heen redevelopments of existing investors' properties. The most significant transaction was the sale of 81st on Fountain, the only prime development available in the financial core until next spring.

A rent of £9.50 is being quoted on the 42,000 sq ft of offices. Grimley says institutions are pre-funding some developments at 6 per cent yields, reflecting the demand for smaller offices in developments of £2m to £8m.

BIRMINGHAM

THE SECOND city of England is earning its title, with an unprecedented demand for space pushing top rents to £12 a sq ft and the promise of creeping close to £15 hy the end of the decade. Supply of space is at its lowest ebb this decade and will fall short of demand for the next two years, says Ian Stringer of Grimley J R Eve.

Inquiries were up 25 per cent in the first half of this year and even higher than that in March and April. London companies facing rents of up to £60 a sq ft are sniffing around the city in anticipation of the extension of the M40 and link with the M42. This should boost rents even further hy the first half of the next decade.

"Decentralisation has not yet had any tangible effect on the West Midlands but we are more expectant than ever for the early 1990s," says Mr Stringer.

Development is extending towards Edgbaston along Broad Street, where 800,000 sq ft of offices is proposed next to the National Indoor Sports Arena and International Convention Centre.

CARDIFF

THE CONTRASTING fortunes of new and second-hand office space stand out sharply in the Welsh capital. As the regional and government centre, it has felt the benefit of economic buoyancy, with professional groups expanding their accommodation enough to suggest that rents of £9 to £10 a sq ft for new space will soon become the norm.

But the economics of converting second-hand property is still precarious while so much space is around, and may become even more so as South Glamorgan County Council releases town centre offices in its move to new headquarters in the docklands redevelopment area.

The Cardiff Bay project itself could raise more interest in the city and bring it belatedly into the magic M4 boom corridor.

Renovation with the aid of grants may also create new space, although even the development corporation is not sure about what it will do with the enormous Coal Exchange building it has just bought for conversion.

BRISTOL

ANOTHER development boom looks set to take off in this city which has seen the best and worst of market cycles over the last 10 years. Only a couple of years ago building ground to a halt because of an overhang of some 750,000 sq ft of space left over from the previous building binge. But that has shrunk hy half with the growing interest of expanding service companies and developers are searching for sites in the city centre again.

Prime rents have bounced from a plateau of between £7 and £8 a sq ft to around £12 in the last year and the lull in supply before today's planned schemes come on the market means the next generation of buildings will be commanding levels closer to £15, says St John Hartnell of agents Hartnell Taylor Cook.

Lloyds Bank has brought memories of the wave of financial newcomers which boosted the city during the last boom, as it rethought expansion plans in the City of London and has decided instead to build a 200,000 sq ft centre on the semi-derelict waterfront in Bristol. The greater pressure of demand is coming not from relocators, bowever, but from expansion of groups already there.

This has always heen a regional centre rich in lawyers, accountants, banks and insurance companies. They are now expanding and looking for more space. NatWest Bank, for instance, bas just taken the cbance of another 70,000 sq ft with the redevelopment of Imperial Tobscco's headquarters in Bedminster, says Mr Hartnell Cook.

READING

THE ECONOMIC buoyancy which is reviving most regional centres is even more powerful in the prosperous M4 corridor, particularly where It approacbes Heathrow and the intersection with the M25. Reading has emerged as the leading office centre in the last decade hut it suffered as much as anywhere from the over-enthusiasm of developers.

Now It is moving into a period of shortage again. Pressure for town-centre offices essed last year, according to an analysis of companies approaching agent Camphell Gordon for space · probably because more attention is being paid to the alternative of mixed office/industrial buildings since the relaxation of planning constraints.

Pure office demand is not a patch on the 4m sq ft potential demand recorded in 1985 but it still came out to a substantial 2.5m sq ft. And while overall demand is dominated by the needs of smaller users requiring up to 15,000 sq ft, this pressure was powerful enough while supply was so threadbare to pnsh town centre rents up from £14.50 to £17 a sq ft by the end of last year, according to Jones Lang Wootton.

Current asking rates on schemes such as MEPC's Abbots House are around £18 and the next phase of 50,000 sq ft is expected to break £20 in 1989.

SOUTHAMPTON/M3

ONE OF the latest veins of prosperity to snake its way out of London bas followed the M3 motorway as far as the south coast.

But it is local buoyancy as much as exported wealtb that has pushed. Vail Williams points out that £12 rents may soon be achieved on the best space in Southampton, while closer to London, Basingstoke bas only 50,000 sq ft of space left available outside Churchill Plaza, which bas already seen rents of £16 a sq ft.

The impact of the M25 nexus begins to show further along the zone at Guildford, where values have shot up to £19 from a long-standing norm of £14.50 to £19.

M25/HEATHROW/ GATWICK

IT IS hard to think of the hroad crescent around the west of London from Watford to Croydon as a provincial market, even if most agents still place it in their "decentralised" offices pigeon hole. The market here draws so strongly on prosperity of Loodon tbat it obeys different rules to the rest of the country.

Motorway connections into London and out to the airports are an important influence, drawing tenants out of the high-priced central area and attracting international and other companies into the various small centres. But the huoyant local economy is also a major factor, raising the overall pressure for space.

Rents have boomed over £20 a sq ft in towns along the M4 spur where supply is restricted such as Windsor and Maidenhead, says David Willcocks of Fuller Peiser.

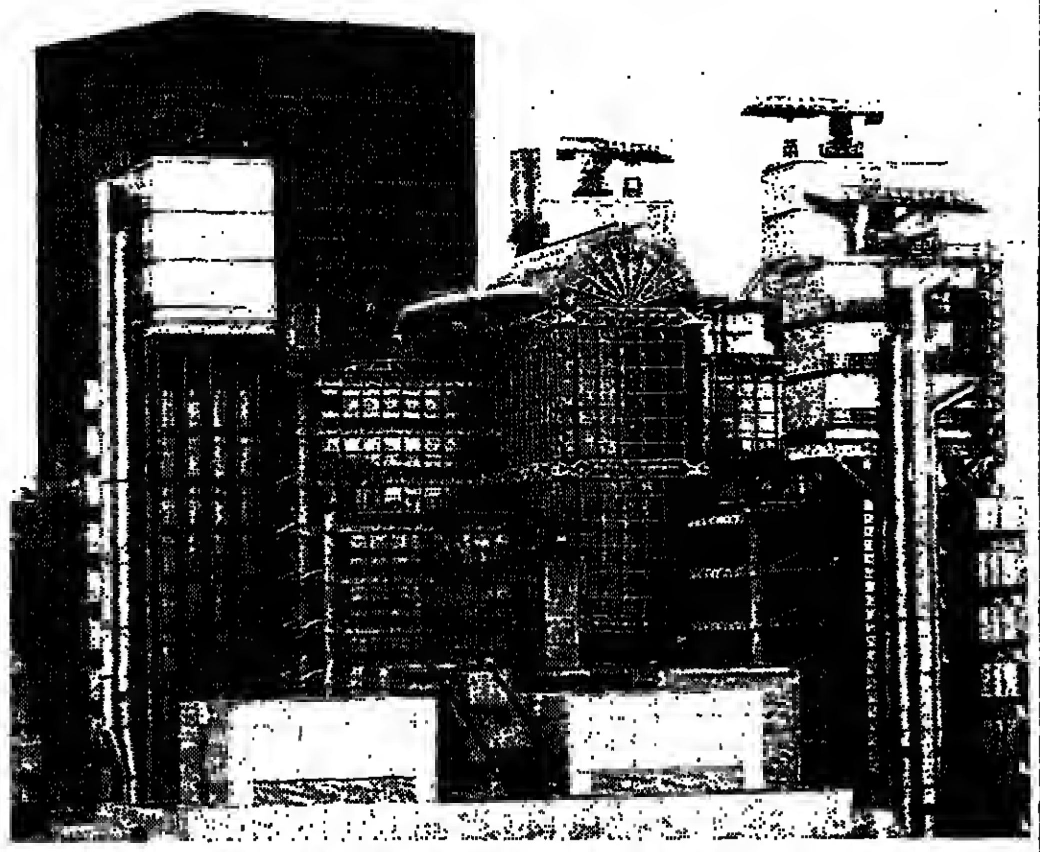
Meanwhile, closer into the capital, Redhill and Reigate rents have gone from £14 to £17.50 as motorways and restrictive planning interact. On the other side of London, Watford has broken the £20 barrier and even St Albans is predicted to touch this (height soon.

Heathrow still holds the record of reots outside London, however, set at £23.50 on the Corporate Centre. While West End rents keep rising so steeply, that the trend cannot last for long. All the main towns within striking distance of London will feel the pressure as tenants look for greener – and cheaper – pastures.

David Lawson

Interest in "intelligent buildings" is increasing, but they require a different approach

Engineering not construction



Lloyd's of London: forerunner of a new generation of office buildings.

OFFICE BUILDINGS are becoming more complex *living environments* which need to respond to changing circumstances.

For instance, the internal climate of a building must be able to react to changes outside, and this necessitates the installation of sensors and controls.

Otber demands on buildings have become apparent througb the increasing use of information technology, which bas involved the installation of complex cabling to support service infrastructures. These demands are creating problems that were not envisaged a few years ago for their occupants.

The dramatic growth recorded in the financial services sector in recent yaars bas relied upon effective and efficient communications, and this in turn calls for *a set of complex services infrastructures.*

An increasing number of high street stores now incorporate sophisticated monitoring systems and control mechanisms. The costs of operating a building can be identified on a zone by zone basis, and attempts made to reduce energy wastage. The knowledge thus gained may then be used for planning new layouts to accomodate changes in retail*ing patterns.*

An intelligent building has the potential to be more than a high-tech space for accommodating industry and commerce. It is possible for it to amass knowledge of its own performance in a central computer database, and to provide valuable information to facilities managers and to planners and designers contemplating new uses and functions.

However, "intelligent building" has become a fashionable term with which to label just about all innovative, highly serviced buildings, according to Mr Brian Atkin, a lecturer in Construction Management at Reading University.

"The truth is that few, if any, could be described as embodying real building intelligence," be argues. "High-tech buildings are not necessarily intelligent buildings, but intelligent buildings are, of necessity, *high-tech.*"

Intelligent buildings are best described as complex systems integrating *building automation* systems, offica automation systems and advanced telecommunications. The result of this integration is that intelligent buildings have more in common with angineering projects than those of traditional construction.

Occupants and owners alike are now taking a physiological view of the building rather than a purely anatomical one. Today, eacb new building design has to *accomodate higher levels of servicing* than ever to support communications, anergy management, fire and security protection systems, and so on.

"True intelligent buildings may not be bere yet, but they are inevitable," adds Mr Atkin. "Intelligent buildings are not a fad, but simply progress."

Mr Arthur Rubin of the US National Bureau of Standards's Center for Building Technology in *Maryland* contends that the old acceptance of poor working conditions, badly designed equipment and inappropriate environments is disappearing, especially among younger workers.

"The npgrading of existing offices is a valuable part of organisational change. It represents a vehicle for changing attitudes and making a new corporate culture visible and meaningful to the staff,"he says.

Mr Rnbin goes on to quote Naisbitt, author of Megatrends, as saying: "The more technology is around us, the more the need for the buman touch — the more we'll be looking for ways to reconnect as human beings."

"In the high technology work place, it is particularly important *to ensure that the worker is the* master, and not the servant of technology.," he says.

Analysis carried out in the US indicates that the cost of putting up an intelligent building is somewhere between seven and 10 per cent greater than a traditional structure, according to Mr Rex Pengilly of Matthew Hall Mechanical & Electrical Engineering.

"It naturally follows that if you have spent more on your building, then it is prudent to look after that extra investment by *prolonging the life of the system* in it and getting the very best out of them,"he asserts.

"It is evident that, *in the* future, all buildings will be intelligent to a varying degree, if only in terms of their energy efficiency, communications, data handling, fire and safety provisions — and we will have to be able to cope with them."

There have been instances where intelligent buildings have failed to live up to the initial hopes and expectations. The reasons for this are complex, but two clear lessons emerge.The first is that success depends upon a *defined plan based* on an integrated strategy. The second is that the buildings now being designed and constructed require the right sort of people to be adequately trained to operate and manage them. In the recent past, people have been pnt in charge of buildings and building management systems of which they have no understanding.

At present, intelligent buildings rely on a series of separate but advanced technologies. The sooner these can be brought together, and a management strategy established for running the building in the long term, the better, according to Mr Pengilly.

Mr Chris Turk of management consultants Arthur Andersen & Co, warns that, in today's excitement over intelligent buildings, it is important not to lose sight of the purpose of giving buildings increased intelligence. Facilities managers must understand their organisation's business and be able to assess the true effect of failure to provide the required environment. They must also understand tba technology employed to control the building *and be able to interpret* and act on the information it provides.

Although volumes of data are supplied by today's antomated building control systems there is a danger of managers being drowned in data but *starved* of information. This is because, at present, the building industry *consists of a number of different* parties with conflicting interests. Each project is a unique gather*ing together of people* who *form* transient relationships for the completion of the work. The systems and methods they use are governed by their role in the project and established practices.

The efficient completion of the project and the effective management of the building once occupied, are not always at the top of the priority list.Yet construction of the successful intelligent building requires just that integration between the skills of construction and facility management.

Boris Sedacca

Space planning

Back in high demand

SPACE: the final frontier. Few *furniture and fittings specialist* have resisted the temptation to steal this pompous, but pithy, opening line from a legendary TV sci-fi saga over the years. Corny it may be, but like all cliches contains a large amount of truth.

Space is becoming a rare commodity again as rents soar and developers try to catcb up with demand. That means space planners are back in high demand again. Not that they were ever *out of favour in expensive places* like the City of London. They have just become tbat much more valuable when the cost of a square foot under the apocryphal waste-paper basket has escalated to Fort Knox standards.

Now that West End baskets are becoming just as expensive to maintain and even provincial models are provoking budgetary palpitations, the pressure for keeping down costs is rippling outwards.

Many tenants desperately need to make the best use of the space they bave. Some are growing exponentially as the economy flourishes, yet moving may be out of the qnestion because rents *have grown so fast or alternative* space has disappeared. Some need wholesale reorganisation *because their premises cann*ot cope with the input of computers and other high-tech hardware.

Solutions vary from ripping the place apart to switching the furniture around. The former is usually left to landlords aiming to compete with modern buildings, althougb some owner-occupiers are drivan to this extreme because they can find nowhere else to go.

But it is an expensive process. Costs went up in the last year by 6.5 per cent to almost £280 a sq metre to refurbish a typical 2,000 sq metre office block built in the 1960s, according to an index produced by Space Planning Services (SPS). *That* produces an average bill of more than £550,000 — before taking account of extras such as telecommunications, professional fees at 15 per cent, value-added tax, and furniture costs at around £1,500 a head.

Taking a new building might suddenly seem more attractive — but even tha "ready to move into" office block will need money spent on it, as few meet tenants' precise requirements. On top of the extra rent, SPS calculates an average bill of more than £230,000 for fitting out — an *increase of almost 8 per cent in a* year — again calculated net of extras.

Less extreme solutions might seem just as frustrating. Changing the furniture and office layouts can be horrendous considering the complexity of personal relationships within offices, let alone the limitations of the building. Trying to achieve the most efficient use of space is a sure recipe for driving the office manager to a nervous breakdown.

Lnckily, tbe cause of many *problems* is *also* helping to find the solution. Computers demand the most expensive changes in buildings (raised flooring to accommodate cables makes up a quarter of the cost of refurbishing). But electronic brains are less susceptible to office politics and nervous breakdowns, so they have been roped in to manipulate the redesigns. *Mel Nevitt of office* equipment manufacturers Centrecore says computer-aided design (CAD) cuts the time by 75 per cent. Tbe first attempt at reorganisation is never right and a computer plotter does not have to start again from scratch. It also helps when the client makes those inevitable changes in what he thinks he *wants just* after the final draft has been finished.

CAD is not something to be brought *in once* a decade for big office revolutions either, says Roger Henderson of SPS. It *should* be a rolling programme, made easier because all the information on a building will be stored in the computer's memory, updated every six months.

Packages can cost about £10,000 or less as a "starter" kit, be says, but this can be set against increased efficiency in building management costs. *Almost* a *quarter* of total accommodation costs go on running premises and that anonymous animal the facilities manager may often be handling more value than anyone else in the company, overseeing between 30 and 60 per cent of the business's total assets.

David Lawson

PROFESSIONALS are often accused of going around in circles to earn their fees. One office designer has made no secret of the fact that its ideas are intensely circular — but they seem to perform the *magic function of conjuring* space out of thin air.

The American company Centrecore claims to produce up to 40 per cent more space in an office by throwing ont the angles and corners of traditional furniture and rebuilding in circles. And it cballenges the need for always throwing ont money to refurblsh an obsolescent building, as the central cores of its workstations will handle the cabling required for anything other than a dealing room or computer room.

They even make the staff bealthier, boasts Centrecore. The column also contains air filters to rednce smoka and beat. One satisfied customer could prove a crucial help in future marketing. Property advisers *Jones Lang Wootton* has laid ont £100,000 for a system in its West End offices.

That might seem a lot to fit only 15 more staff into the same space. But if yon figure that rents in tbe Hanover Square area are more than £50 a sq ft and the average space neded per person in the modern office is between 125 and 200 sq ft, *JLW will have* more than paid for the cost within a year.

Demands and needs change

from page 1

been given a fillip by the new Use Classes Order, published by the Government just before the *last* election. The erosion of the difference between light industrial and office use enables the conversion of high tech estates into campus office parks.

It is not certain how the *spread* of business parks will affect the traditional urban office market, but over a period they could have a dampening effect on rental growth. At the same time, where there is a concentration of development as in, say, the Reading area, there is intense competition between one project and another.

On another level, the growth of *business parks reflects* another trend in the office sector. Tenants are making increasing demands for a *better environ*ment and for a more economic use of space. Against that background, new buildings on a greenfield site with landscaping have an obvious attraction when set against cramped urban accomodation built 20 years ago.

Urban developers, however, have been responding both to the need to provide more attractive buildings in which to work and to the need for flexible space use abla *to* accommodate the latest *electronic office gadgetry.* Recent reports and surveys of office buildings have highlighted the concern about "sick" buildings. The demand for space, in short, has not been for any room anywhere. It has put additional technical pressure on the developers to provide quality as well as quantity.

It is therefore not only at the buying and selling end that the office market is in a state of flux. As the costs of accommodation *have increased* to *what* would have been unheard-of levels even three years ago in the London area, there is an increasing stress on obtaining value for money.